




Chesterfield County, Virginia Internal Audit

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GREG L. AKERS
Director

DATE: December 29, 2017

TO: Joseph P. Casey, Ph.D.
County Administrator

FROM: Greg L. Akers 
Director of Internal Audit

SUBJECT: Countywide Payroll and Human Resources Benefits Audit

The Office of Internal Audit completed an audit of Countywide Payroll and Human Resources Benefits, and the final report is attached.

We would like to thank Accounting, Human Resources, and all departments audited for their cooperation and assistance during this audit.

Attachment

Copy: James F. Lane, Ed.D., School Superintendent
Audit and Finance Committee
Scott Zaremba, Deputy County Administrator
Lou Lassiter, Deputy County Administrator for Finance and Administration
Sarah Snead, Deputy County Administrator for Human Services
Bill Dupler, Deputy County Administrator for Community Development
Allan Carmody, Director of Finance
Patsy Brown, Director of Accounting
Mary Martin Selby, Director of Human Resources
Kiva Rogers, Executive Director of Social Services
Debbie Burcham, Executive Director of MHSS
Richard Troshak, Director of ECC
Karl Leonard, Sheriff
Clay Bowles, Director of General Services¹
Lt. Colonel Daniel Kelly, Interim Chief of Police¹
Cindy Smith, Director of Risk Management¹
George Hayes, Director of Utilities¹

¹ Department receiving report for commendation purposes only.



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Countywide Payroll and Human Resources Benefits

December 29, 2017

Payroll Benefits

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December 2017

Highlights

Internal Audit Report to the Board of Supervisors/School Board

Why We Did This Review

Internal Audit conducted this review as part of our FY17 audit plan approved by the County Administrator, School Board Superintendent, and the Audit and Finance Committee.

The audit objectives were to evaluate compliance with Federal, State, and County requirements, verify Payroll internal controls for processing and terminations, test Payroll transaction processing and VRS reconciliation accuracy, and report to management.

What We Recommend

We recommended improvements over:

- Overtime monitoring for HR notification.
- ACA reporting process.
- Payroll adjustment accuracy verification and input error detection.
- VRS reconciliation timeliness.
- Obtaining annual commuter vehicle usage information from all department directors.
- Employee recognition program compliance with County policy.



For more information, please contact
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Countywide Payroll and Human Resources Benefits



What We Found

Background

Payroll and HR Department coordinate payroll processing for 3,635 full-time employees in over 50 County departments.

Commendations

We commended Accounting and HR for developing policies and procedures to assist departments in payroll processing and performing work in the following areas without exceptions:

- Internal Control testing (rounded net pay, P.O. box payments, County Nepotism Policy, compensating controls for limited staff, controls for equally/fairly paid overtime, employee salaries exceeding \$100,000, employee salary increases from CY15 to CY16, Payroll tax table update process, reasonable journal entries with proper approvals, and retiree processing)
- Payroll and Benefits Processing Accuracy (accurate payroll deductions, separated/terminated employee processing, and timecard adjustment process)

Overtime Limits Exceeded

All employees with over 700-hours overtime during CY16 were tested for County policy compliance and approval documentation. We noted three departments with one employee each exceeding 700 hours overtime, that did not document the necessity.

Part-Time Employee Healthcare Eligibility

A sample of 25 part-time employees were tested for Affordable Care Act (ACA) reporting. Reporting was not required for 9 of 25 selected. For the remaining 16 employees:

- One received a 1095-B instead of a 1095-C.
- Two tested did not receive a 1095-C.

Payroll Adjustment Processing

In CY16, there were 32 manual checks totaling \$47,373. Internal audit tested 10 manual checks totaling \$8,390 without exception. However, for one manual check evaluated, we noted an opportunity to strengthen review of hours adjustments entered by payroll staff.

Payroll and HR Benefits Processing

Internal Audit reviewed external auditor, Cherry Bekaert, CY16 VRS transaction test results. As previously reported by the external auditor, the County confirmation and payment for two months tested was not performed by the 10th of the subsequent month. Accounting has established an action plan to improve the VRS reconciliation and payment timeliness.

Commuter Vehicles

Departments are required to identify employees with taxable commuting to Accounting for IRS reporting. Two departments reported one taxable commuter. Internal Audit tested 10 of 87 reported commuter vehicles for potential taxable fringe benefit reporting. No tested vehicles were taxable. However, we noted departments were not required to certify when there are none.

Non-Cash Awards/Gift Card Fringe Benefits

Internal Audit tested 48 non-cash awards for County policy compliance and noted 1 employee recognition award was overtaxed.

Management concurred with 14 of 14 recommendations to be implemented by June 30, 2018.

We appreciate the cooperation received from management and staff while conducting this audit.

INTRODUCTION

BACKGROUND

The Countywide Payroll and Human Resources (HR) Benefits audit was a regularly scheduled audit on the FY17 audit plan approved by the County Administrator, School Superintendent, and the Audit and Finance Committee. Payroll and HR Department coordinate payroll processing for 3,635 full-time employees in over 50 County departments.

Payroll is a section within the Accounting Department and is responsible for the timely and accurate production of pay checks. Timekeepers, approvers, and all employees in each department are responsible for reporting time and attendance entry and verifying pay processing reports from ONESolution, Time Trak, and Telestaff.

The HR Department is responsible for maintaining employees' status, pay rates, benefit information, etc. HR maintains the information in ONESolution that Payroll uses to process pay using time and attendance reported by departments. Additionally, HR liaisons in each department are responsible for sending personnel action forms (PAFs) to HR to authorize update to employee information including salary, position, and status changes, etc.

OBJECTIVES

Objectives of the audit were to:

- Evaluate compliance with Federal, State, and County requirements.
- Verify Payroll internal controls for processing and terminations.
- Test Payroll transaction processing and VRS reconciliation accuracy.
- Report to management.

SCOPE

Our audit work covered transactions in CY16.

We considered the following code, policies, and procedures during our audit:

County Accounting 1-4: Payment of Compensation to County Personnel	County Accounting 1-17: Timekeeping for Personnel
County Accounting 1-18: Calculation of Overtime and Compensatory Time	County Accounting 5-1: General Services – Vehicle Operation
County HR 6-1: Leave/Holidays	County HR 6-2: Separations and Unemployment Compensation
County HR 6-14: Employee Recognition Program	County HR 6-17: Fair Labor Standards Act Compliance
County HR 6-20: Family & Medical Leave Act	County HR 6-28: Short and Long-Term Disability Benefits

SCOPE *(continued)*

Fire Finance #2 Policy – FLSA Addendum	IRS Fringe Benefit Guide – Office of Federal, State, and Local Governments
IRS Publication 15, Circular B – Employer’s Tax Guide to Fringe Benefits	IRS Publication 15, Circular E – Employer’s Tax Guide

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Steve Sanderson, Senior Auditor, and Stephanie Bookheimer, Staff Auditor, performed the audit work. Chesterfield County Internal Audit is a department within the organization of Chesterfield County/Schools.

METHODOLOGY

Detailed information regarding the methodology can be found in the individual findings listed in the report. Our methodology included the following: interviews, observations, data analysis, and documentation review.

INTERNAL CONTROL CONCLUSION

According to Government Auditing Standards, internal controls, in the broadest sense, encompass the agency’s plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal controls include the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- Efficiency and effectiveness of operations;
- Accurate financial reporting; and
- Compliance with laws and regulations.

Based on the results and findings of the audit test work, auditors concluded that internal controls were in place, but not consistently followed which could impact their ability to assist management in meeting its missions, goals, and objectives. Recommendations specific to improving these controls can be found in detail further in the audit report.

CLOSING

We would like to thank Accounting, Human Resources, and all departments audited for their cooperation and assistance during the course of this audit.

FINDINGS, RECOMMENDATIONS, RESPONSES

Overtime Limits Exceeded

(Point Sheet C-1.3)

CRITERIA:

County Administrative Policy (CAP) 6-17: HR – Fair Labor Standards Act Compliance states departments should monitor employee overtime to ensure employee safety. Employees working 40-hour weeks shall not work more than 700 hours in overtime in a calendar year. Fire and EMS personnel working 56-hour weeks shall not work more than 1,050 hours of overtime in a calendar year. Overtime hours include all hours worked above an employee's regularly scheduled hours, regardless of compensation rate. Employees must receive supervisor approval before working overtime hours.

CONDITION(S):

Auditor downloaded and sorted employee overtime earnings by employee and earning code. All employees exceeding overtime limits during calendar year 2016 were tested for CAP 6-17 compliance and approval documentation. There were 3 employees that exceeded the 700-hour overtime maximum:

- 1 Emergency Communication Center (ECC) employee exceeded by 619.25 hours. Employee also had a part-time position with the Sheriff's Office. Majority of employee's overtime hours came from the part-time position.
- 1 Mental Health Support Services (MHSS) employee was over the 700-hour threshold by 110.5 hours.
- 1 Sheriff's Office employee was over the 700-hour threshold by 30 hours. Employee's paid overtime agreed with manual time sheets however, the overtime hours were under recorded in Telestaff system used by Sheriff's Office to monitor overtime.

CAUSE(S):

- ECC staff was unaware that employee's hours from Sheriff's Office should have been tracked with ECC overtime hours.
- MHSS had multiple staff vacancies where only certain employees were qualified to fill in.
- Currently, Sheriff's Office employees record overtime in Telestaff, but also submit a manual time sheet for actual payroll processing in ONESolution. Sheriff's Office has future plans to transfer to Telestaff for complete payroll processing.

EFFECT(S):

- Departments were not in compliance with CAP 6-17 which allows employees to earn a maximum of 700 hours overtime per calendar year.
- By not tracking hours for both jobs, ECC employee exceeded the overtime maximum set by CAP 6-17.
- Overtime hours in Telestaff used for monitoring limit were not accurate. Supervisors do not consistently correct Telestaff hours to match manual time sheets.

FINDINGS, RECOMMENDATIONS, RESPONSES

Overtime Limits Exceeded

(Point Sheet C-1.3, Continued)

ACTION(S) TAKEN:

During a meeting held on July 10, 2017, it was noted MHSS has started to receive overtime reports from Payroll after each pay period to closely monitor employee overtime earned.

RECOMMENDATION(S):

1. We recommend ECC appropriately consider secondary employment when documenting overtime.
2. We recommend MHSS continue to monitor overtime and if an employee is going to exceed the maximum limit document reasons and notify HR of this occurrence.
3. We recommend Sheriff's Office continue to monitor overtime and if an employee is going to exceed the maximum limit document reasons and notify HR of this occurrence.
4. We recommend Sheriff's Office reconcile Telestaff hours to ONESolution hours to ensure accurate overtime monitoring.

MANAGEMENT'S RESPONSE(S):

1. *Concur. Theresa Justice, Operations Manager was responsible for implementing 11/12/17. It was brought to our attention, during the audit, that any hours in which an ECC member worked during a Job 2 status for another department counted towards their ECC overtime hours; we were unaware of that. At the time of the audit, and presently, there are no ECC members in a Job 2 status this would apply to. The ECC currently, and in the past, has had in place reviews of ECC overtime usage bi-monthly. When an employee reaches a threshold of approximately 350 hours a memo is sent to them advising of their overtime usage and the number of hours remaining of the 700; taking into account mandated overtime that may occur. A final memo will be sent to those; and any additional applicable employees in October/November of each year stating the same. We understand to track any applicable ECC members time worked in a Job 2 status as overtime worked as well; as stated currently there are no members meeting this criteria.*
2. *Concur. David Meadows, Assistant Director and Karyn Carpenter, HR Manager, are responsible for implementing 2/28/18. Assistant Director will continue to request an overtime report monthly from county payroll. The report is reviewed with the Residential Manager and concerns are addressed as needed. County payroll has requested that the Assistant Director have permission to access the report directly. This option may be available by February 2018.*

FINDINGS, RECOMMENDATIONS, RESPONSES

Overtime Limits Exceeded

(Point Sheet C-1.3, Continued)

MANAGEMENT'S RESPONSE(S):

3. *Concur. Josh Ritchey and Sandra Olmeda, Administrative Assistants, are responsible for implementing 1/31/18. The Sheriff's Office endeavors to continually monitor overtime and maintain employees under the 700-hour threshold. The employee in question went over the threshold due to OT hours worked at Buildings and Grounds. These hours do not get processed at the Sheriff's Office, but are processed at B&G. This means that we are unable to access OneSolution reports on those hours, nor do they appear in Telestaff. We are scheduling a meeting with B&G to determine the best way to handle these hours going forward to ensure proper accounting and maintenance of the 700-hour threshold. The Sheriff's Office Payroll Processing S.O.P. will be amended to include these new procedures, as well as documentation and notification to HRM should any overages occur.*
4. *Concur. Josh Ritchey and Sandra Olmeda, Administrative Assistants, are responsible for implementing 1/31/18. The Sheriff's Office will implement Telestaff/OneSolution reconciliation of overtime and will amend the Payroll Processing S.O.P. to include this procedure.*

FINDINGS, RECOMMENDATIONS, RESPONSES

Part-Time Employee Healthcare Eligibility

(Point Sheet C-1.6)

CRITERIA:

Under the Affordable Care Act (ACA), the County is required to establish a yearly measurement period for hours worked to determine an employee's healthcare eligibility. Employers are also required to offer healthcare to any part-time employee who works 30 hours or more per week the same as provided to full-time employees. County Administrative Policy 6-11: Human Resources (HR) – Part-time Employment and Benefits establish a 28-hour limit for part-time employees to offer flexibility to departments to ensure part-time employees are under 30 hours per week. There are potential penalties if the County has employees in that category who are not offered healthcare as a full-time employee. HR assists departments with part-time employee ACA hour threshold monitoring to prevent penalties.

In 2016, HR began using an outside firm, UnifyHR, which handles healthcare eligibility reporting and tracking for ACA compliance. HR develops and submits data files that include demographics, hours, enrollment, and dependent information to UnifyHR. UnifyHR creates Form 1094 transmittal to the Internal Revenue Service, Form 1095-B for retiree or COBRA coverage, and Form 1095-C for employer offered coverage. Form 1095 information determines applicable County shared responsibility payments and employee premium tax credit eligibility.

CONDITION(S):

A sample of 25 part-time employees were selected for testing to verify healthcare eligibility during the measurement period and Form 1095-Cs were issued appropriately. Reporting was not required for 9 of 25 selected. For the remaining 16 employees:

- 1 received a 1095-B instead of a 1095-C.
- 2 did not receive a 1095-C.

CAUSE(S):

- For one employee, HR transmitted data to UnifyHR was incomplete.
- HR's process did not identify 2 employees requiring a Form 1095-C.
- HR began using UnifyHR late 2016 resulting in limited turnaround time to transmit data files.

EFFECT(S):

- Issuing Form 1095-B made employee appear they did not receive employer-provided health insurance coverage.
- Employees may not have completed their tax return properly. Form 1095-C determines eligibility for premium tax credit.

FINDINGS, RECOMMENDATIONS, RESPONSES

Part-Time Employee Healthcare Eligibility

(Point Sheet C-1.6, Continued)

ACTION(S) TAKEN:

HR is working with UnifyHR to correct exceptions above. They have issued Form 1095-C for one employee. UnifyHR will also file a corrected Form 1094 with IRS for any corrected Form 1095s mailed; the IRS allows up to 36 months for corrections.

RECOMMENDATION(S):

We recommend HR:

5. Ensure UnifyHR receives all applicable records for employees when sending data files.
6. Conduct an audit of all (580) 2016 Form 1095-Bs filed to ensure the employees received the correct form.
7. Continue to improve process for ACA reporting to ensure the correct forms are issued to all applicable employees.

MANAGEMENT'S RESPONSE(S):

5. *Concur. Nancy Brooking, Assistant Director, HR, is responsible for implementing 1/31/18. UnifyHR was a new vendor for the county beginning in 2016 and like with most third-party vendors, there is a learning curve on both sides. We began sending monthly data files to UnifyHR this year as a process improvement effort to help ensure they would have the most up-to-date data needed for ACA reporting.*
6. *Concur. Nancy Brooking, Assistant Director, HR, is responsible for implementing 4/1/2018. HR has requested the records of everyone who was sent a 1095 B to review to ensure accuracy. IRS permits employers 36 months from 2016 to make the corrections. If corrections are needed, HR will be able to do so within the permitted time frame.*
7. *Concur. Nancy Brooking, Assistant Director, HR, is responsible for implementing 4/1/2018. As with all new processes of this nature, HR will review each year's ACA reporting process to determine if there are any areas that need improvement, and will make adjustments as needed.*

FINDINGS, RECOMMENDATIONS, RESPONSES

Payroll Adjustment Processing

(Point Sheet C-1.1)

CRITERIA:

County Administrative Policy 1-4: Accounting – Payment of Compensation to County Personnel defines a procedure for Payroll to process manual checks when an error occurs during employee paycheck processing. An error is when an employee does not receive an expected pay amount based on hours worked.

Additionally, the Payroll Department has a review process to verify data entry for payroll adjustments requested by County Departments. Payroll staff verify each other's entries and initial the support for document review.

Hours worked (non-exempt) and leave taken (exempt) is submitted by individual employees in the payroll system each pay period. After supervisory approval, data flows to Payroll for processing. There is a Department Correction Form to submit adjustments to payroll after departments approve and submit employee hours. The Institute of Internal Audit's Global Technology Audit Guide 8 recommends application controls to ensure data reliability and to mitigate data entry risk.

CONDITION(S):

Internal Audit tested manual checks related to payroll adjustments. In 2016, there were 32 manual checks totaling \$47,373. Internal audit selected 5 manual checks totaling \$4,969 to determine if the check was issued for a legitimate reason, reliable supporting documentation was present, and action was taken to prevent error replication for future payroll periods. 1 of 5 (20%) manual checks tested was to correct an error for a \$6,429 overpayment. The overpayment occurred when a Department supervisor approved and submitted an employee's time before verifying overtime was included on the employee's hours. After the Department Correction Form was submitted to Payroll for employee hour correction, Payroll miskeyed the missing 12 overtime hours as 312 overtime hours for a single day. Internal Audit tested an additional 5 checks totaling \$3,421 for similar events where payroll miskeyed adjustments and none were noted.

CAUSE(S):

- The payroll application in ONESolution does not have an input control to help ensure data is complete, accurate, valid, and logical. There are no limitations on values entered into data fields.
- Payroll's review process did not locate a payroll adjustment error where a 12-hour adjustment was entered as a 312-hour adjustment.

EFFECT(S):

- System does not flag or prevent entering unexpected data to alert Payroll staff of potential errors.
- An extra \$6,429 was approved and paid to an employee, that was subsequently recovered. Payroll was not aware of an error until reported by the overpaid employee.

FINDINGS, RECOMMENDATIONS, RESPONSES

Payroll Adjustment Processing

(Point Sheet C-1.1, Continued)

RECOMMENDATION(S):

8. We recommend Accounting implement monitoring process or evaluate with system vendor if input controls are available for certain data fields that could reduce the opportunity for keying errors.
9. We recommend Payroll consider verifying payroll adjustment accuracy by adding a documented review process after Payroll staff review is completed.

MANAGEMENT'S RESPONSE(S):

8. *Concur. June Albrecht, Payroll Manager is responsible for implementing 6/30/18. Accounting will explore whether an exception report can be developed to detect errors for the data entry of hours prior to payroll processing although we believe the action described in recommendation 9 is sufficient and provides a broader review. We cannot make system changes because policy requires certain types of large hours adjustments to be processed routinely.*
9. *Concur. June Albrecht, Payroll Manager, has implemented. After this error was reported by the employee, the Payroll Manager began requiring Payroll staff to have their batches reviewed and initialed by a co-worker to add a control prior to processing payroll. Payroll has detective controls in place to identify errors such as this after payroll is processed. Departments continue to have the responsibility to review their payroll check registers to detect errors.*

FINDINGS, RECOMMENDATIONS, RESPONSES

Payroll and HR Benefits Processing

(Point Sheet C-1.5)

CRITERIA:

Accounting and Human Resources (HR) County Administrative Procedures (CAP) provide departments with guidance to help ensure payroll and HR data is timely, accurate, and compliant with certain laws and regulations:

- CAP 1-4: Accounting – Payment of Compensation to County Personnel
- CAP 1-17: Accounting – Timekeeping for County Personnel
- CAP 1-18: Accounting – Calculation of Overtime and Compensatory Time
- CAP 6-1: HR – Leave/Holidays
- CAP 6-2: HR – Separations and Unemployment Compensation
- CAP 6-17: HR – Fair Labor Standards Act (FLSA) Compliance
- CAP 6-20: HR – Family & Medical Leave Act (FMLA)
- CAP 6-28: HR – Short and Long-Term Disability Benefits

The Virginia Retirement System (VRS) is an independent agency of the Commonwealth of Virginia that administers pension plans, group life insurance, and disability programs for certain Virginia public-sector employees. VRS provides resources for employers including an employer manual documenting contribution confirmation and payment scheduling. All employers are required to confirm employee activity and submit payment by the 10th of the subsequent month.

CONDITION(S):

The following audit testing was performed with immaterial, if any, discrepancies noted:

- Test of Internal Controls
 - Employees with rounded net pay and payment to P.O. boxes were reasonable.
 - Departments are not violating the County's Nepotism policy.
 - Compensating controls exist for departments with limited staff.
 - Controls are in place to ensure department overtime is paid equally/fairly.
 - Employee's income in excess of \$100,000 was reasonable.
 - Employee salary increases from CY15 to CY16 greater than the standard merit increase was reasonable.
 - Reviewed Accounting tax table process.
 - Journal entries were reasonable and have proper approvals.
 - Retiree's final payment was accurate, benefits removed timely, and VRS was notified of retirement.

FINDINGS, RECOMMENDATIONS, RESPONSES

Payroll and HR Benefits Processing

(Point Sheet C-1.5, Continued)

CONDITION(S): *(continued)*

- Test of Payroll and Benefits Processing Accuracy
 - Payroll deductions were accurate according to personnel action form and elections.
 - Separated/terminated employee's final payment was accurate, benefits removed timely, and VRS was notified of separation.
 - Reviewed timecard adjustment process.

Cherry Bekaert, the County's external auditor, performed the same VRS third party reconciliation tests Internal Audit planned for this audit. Internal Audit reviewed Cherry Bekaert's CY16 transactions from FY16 and FY17 workpapers. The County confirmation and payment for two months tested was not performed by the 10th of the subsequent month. Accounting has established an action plan to improve the VRS reconciliation and payment timeliness.

CAUSE(S):

Accounting and HR staff performed payroll related tasks appropriately by following County administrative policies and procedures.

EFFECT(S):

Complying with County administrative procedures helps the County achieve its goal of being a model of excellence in government.

COMMENDATION(S):

Accounting and HR are commended for developing policies and procedures to assist departments in payroll processing and performing work in areas noted above without exception.

RECOMMENDATION(S):

10. We recommend Accounting complete their action plan by cross-training staff as backup and complete VRS reconciliation and payment timely.

MANAGEMENT'S RESPONSE(S):

10. *Concur. June Albrecht, Payroll Manager is responsible for implementing 6/30/18. We concur with cross-training another staff member. We will strive to pay the accurate VRS amount timely. Our goal is to have a second staff member, other than the manager, trained as back-up for VRS processes by June 30, 2018. Recently the priority has been to train a second staff member other than the manager to be able to complete all aspects of processing the bi-weekly payroll.*

FINDINGS, RECOMMENDATIONS, RESPONSES

Commuter Vehicles

(Point Sheet C-1.4)

CRITERIA:

County Administrative Policy 5-1: General Services – Vehicle Operation provides department director periodic review procedures for their commuting vehicles and requires Payroll notify departments with commuting vehicles regarding tax liability calculation. After review is complete, the Fleet Services Division (FSD) Fleet Manager provides a report to the Deputy County Administrators and Accounting Director.

Payroll sends an annual email to all departments with known commuter vehicles that describes IRS Publication 15-B regulations, commuter vehicle use taxability, employee's tax responsibility, and employee commuter use confirmation. Employees who commute in a county vehicle are required to report each commute to Accounting which is equal to \$1.50 per commute that is added to the employee's taxable earnings (W-2) at year-end as a taxable fringe benefit.

IRS Publication 15-B provides criteria for when employee commuter use of an employer vehicle is a taxable fringe benefit. Vehicle the employee is not likely to use more than minimally for personal purposes, because of its design, is not taxed for commuting use. These types of vehicles include:

- Clearly marked, through painted insignia or words, police, fire, and public safety vehicles.
- Unmarked vehicles used by law enforcement officers if the use is officially authorized.
- Any vehicle designed to carry cargo with a loaded gross vehicle weight (GVW) over 14,000 pounds.
- A pickup truck or van with a loaded GVW of 14,000 pounds or less if the following additional criteria are met:
 - A. Truck Criteria
 1. Truck is equipped with at least one of the following items:
 - a. A hydraulic lift gate.
 - b. Permanent tanks or drums.
 - c. Permanent side boards or panels that materially raise the level of the sides of the truck bed
 - d. Other heavy equipment (such as an electric generator, welder, boom, or crane used to tow automobiles and other vehicles)
 2. It is used primarily to transport a particular type of load (other than over public highways) in a construction manufacturing, processing, farming, mining, drilling, timbering, or other similar operation for which it was specifically designed or significantly modified.

FINDINGS, RECOMMENDATIONS, RESPONSES

Commuter Vehicles

(Point Sheet C-1.4, Continued)

CRITERIA: *(continued)*

B. Van Criteria

1. Permanent shelving that fills most of the cargo area.
2. An open cargo area and the van always carries merchandise, material, or equipment used in your trade, business, or function.

Per 26 Code of Federal Regulation (CFR) 145.4051-1 – Imposition of Tax on Heavy Trucks and Trailers Sold at Retail, gross vehicle weight (GVW) refers to the maximum total weight of a loaded vehicle including the chassis, body, engine, engine fluids, fuel, accessories, driver, passengers, and cargo.

CONDITION(S):

Internal Audit used the FSD Commuting and Low Mileage Vehicle Report provided to Accounting to test 10 of the 87 commuter vehicles for taxable fringe benefit reporting. 8 of 10 vehicles tested were exempt from taxation based on vehicle type. Two vehicles (General Services and License Inspection) were not used for commuting and should not have been included on the FSD Report.

Internal Audit initially questioned why three commuting vehicles with a GVW less than 14,000 pounds were not reported to Payroll as taxable. These pickup trucks have three permanently mounted side boxes that raise the bed and reduce the cargo capacity of the truck bed. IRS guidance does not clearly define materially raised truck beds, Accounting and Utilities have agreed since 2006 that this modification raises the truck bed height and reduces capacity so that it is not likely to be used more than a de minimus amount for personal purposes and thus, avoids taxability. We noted the County's interpretation is not distributed annually to departments with possible commuting vehicles.

Payroll does not require positive confirmation from departments regarding commuter taxability. Two of the six departments with commuting vehicles reported one employee to Payroll in 2016 with taxable commuting.

CAUSE(S):

- Payroll's annual commuter use confirmation email to departments does not include County's interpretation for light truck and van modifications that make them non-taxable.
- While departments must report taxable commuting to Payroll, there is no annual department certification that all commuter vehicles were evaluated for taxability.

FINDINGS, RECOMMENDATIONS, RESPONSES

Commuter Vehicles

(Point Sheet C-1.4, Continued)

EFFECT(S):

- Departments may not be aware of County's interpretation for light truck and van modifications which could result in inconsistent taxable commuter reporting or IRS noncompliance.
- Accounting does not receive documentation for each department's annual commuting vehicle taxability evaluation.

RECOMMENDATION(S):

We recommend Accounting:

11. Include the County's interpretation for light truck and van modifications that make them non-taxable when the annual email is provided to all departments with known commuter vehicles.
12. Strengthen procedures by requiring departments with commuter vehicles have director annually certify, through positive confirmation, that all vehicles have been reviewed for tax exempt status per IRS Publication 15-B criteria and applicable employees have reported taxable commuting use benefit to Payroll.

MANAGEMENT'S RESPONSE(S):

11. *Concur. June Albrecht, Payroll Manager, implemented for calendar year 2017. Accounting provided pictures and descriptions to all department directors with the annual request to provide information on commuters who should be taxed on vehicle use.*
12. *Concur. June Albrecht, Payroll Manager, implemented for calendar year 2017. All departments were asked to respond to the request to provide information on commuters who should be taxed on vehicle use. For calendar year 2017 three individuals in different departments were taxed for using a vehicle for the work commute.*

FINDINGS, RECOMMENDATIONS, RESPONSES

Non-Cash Awards/Gift Card Fringe Benefits

(Point Sheet C-1.2)

CRITERIA:

County Administrative Policy and Procedure 6-14: HRM – Employee Recognition Program states requests for reimbursement or purchase for these awards must be sent to Accounting-Accounts Payable using the Employee Recognition Award Form. For items kept in inventory (referred to as store items), the department must maintain a current listing which should include proof of issuance (e.g. recipient's signature, email receipt). If an award is taxable, the department shall use the Notice to Payroll Taxable Non-Cash Award form to notify Payroll. For non-cash awards, the department must determine taxability. If the department cannot determine taxability, they should contact the County's payroll manager for guidance. Regardless of the amount, gift cards and gift certificates are always taxable.

Departments send the completed Notice to Payroll Taxable Non-Cash Award form to Payroll for processing. Payroll manually keys specific information regarding the fringe benefit for individual employees such as the effective date, the taxable amount, end-date, etc.

CONDITION(S):

A sample of 48 non-cash awards (gift cards) were selected for testing to verify if departments are following CAP 6-14 appropriately, and the following was noted:

- 47 of 48 gift cards were properly taxed.
- 1 gift card issued by Social Services was not properly taxed. Through this exception, Auditor found Social Services issues \$5 gift cards as part of their "High 5" recognition program. The program started in 2012, and the department had not completed the appropriate payroll form for any gift cards issued through this program. In CY16, 118 gift cards were issued through the High 5 program totaling \$590.

Payroll identified two employees on the fringe benefit report for CY16 who were taxed through multiple pay periods for one gift card. When Payroll recorded the taxable fringe benefit, no end-date was entered for each employee. Payroll has the ability to run a separate report on "high dates" which would identify any fringe benefits keyed without an end-date. Payroll does not have a routine process for running this report.

CAUSE(S):

- Emergency Communication Center, General Services, Human Resources, Police, Risk Management, and Utilities followed appropriate procedures for non-cash awards.
- Social Services did not submit payroll forms for gift cards under \$10.
- Payroll relies on detective controls (manually reviewing each other's batches) to locate errors.

FINDINGS, RECOMMENDATIONS, RESPONSES

Non-Cash Awards/Gift Card Fringe Benefits

(Point Sheet C-1.2, Continued)

EFFECT(S):

- By Emergency Communication Center, General Services, Human Resources, Police, Risk Management, and Utilities complying with administrative policies and procedures helps the County achieve its goal of being a model for excellence in government.
- Social Services is not in compliance with CAP 6-14 and IRS De Minimis Fringe Benefits policy.
- Without an end-date, taxable benefit was over-reported and taxes were withheld on the employees' pay until the error was found.

ACTION(S) TAKEN:

- As of June 20, 2017, Social Services completes the Notice to Payroll Taxable Non-Cash Award form for any gift cards issued from the High 5 program.
- As of CY17, Payroll is working on completing the necessary paperwork to correct the tax errors.

COMMENDATION(S):

We commend Emergency Communication Center, General Services, HR, Police, Risk Management, and Utilities as all gift cards tested were appropriately taxed and followed CAP 6-1.

RECOMMENDATION(S):

13. We recommend Social Services review all department recognition programs to ensure the programs are in compliance with CAP 6-14: Employee Recognition.
14. We recommend Payroll run a report during each payroll cycle to verify if an end-date has not been entered for a fringe benefit or evaluate with system vendor if input controls are available such as an existence check to ensure an end-date is entered for all taxable awards.

MANAGEMENT'S RESPONSE(S):

13. *Concur. Jay Payne, Assistant Director has implemented. As of June 20, 2017, DSS began to complete the Notice of Payroll Taxable Non-Cash Award for all gift cards issued for the High 5 Recognition Program. DSS has reviewed all agency recognition programs to ensure compliance as of December 15,2017.*
14. *Concur. June Albrecht, Payroll Manager has implemented. When Payroll identified this problem the Payroll Manager immediately began requiring that Payroll staff complete an on-line query each pay period to ensure that all taxable fringe benefit records have an end-date entered. There are similar type transactions that should not have an end date on the record.*