AGREED UPON PROCEDURES
FOR THE
UNIFORM EXPENSE ACCOUNTS
FOR THE LUZERNE COUNTY
CORRECTION FACILITY,
SHERIFF'S OFFICE AND
SECURITY DEPARTMENT

FOR THE YEAR ENDED
DECEMBER 31, 2011

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To the Controllers' Office
of Luzerne County, Pennsylvania:

We have performed the procedures enumerated below, which were agreed to by the Controllers' Office, solely to assist you in evaluating the use of the uniform expense accounts for the Luzerne County Correctional Facility, Sheriff's Office and Security Department for the year ended December 31, 2011. Luzerne County's management is responsible for the general ledger related to these accounts. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Accountable Plan – We examined each department's uniform's policy and determined if contained the elements of an accountable plan according to Internal Revenue Service guidelines as summarized below. As discussed in IRS Regs. Sec. 1.62-2(c)(4), amounts paid under an accountable plan are generally excluded from a recipient employee's taxable income and are therefore exempt from payroll taxes and income taxes. Amounts paid under a nonaccountable plan (or under an improperly maintained accountable plan) will result in additional income on the employee's W-2.

To take advantage of the accountable plan rules, employers must establish a valid, written plan in accordance with Sec. 62(a)(2)(A) and Regs. Sec. 1.62-2. To qualify as an accountable plan, the plan must require that:

- The employee expenses have a business connection;
- The employee adequately account for the expenses within a reasonable time period; and
- The employee return excess allowances within a reasonable period of time.

Under Regs. Sec. 1.62-2(g), a reasonable time period is based on the facts and circumstances, but actions that take place within the following time periods will always be considered reasonable:

- Advances are received within 30 days of the time the expense is paid or incurred.
- Expenses are adequately accounted for within 60 days after they were paid or incurred.
- Any excess reimbursement is returned within 120 days after the expense was paid or incurred.

Even if the amounts are initially paid through an eligible accountable plan, if the rules detailed in Regs. Sec. 1.62-2 are not adhered to, the amounts may be treated as paid under a nonaccountable plan.

Clothing Provided by the Employer – IRS Regs. Sec. 1.62. The value of work clothing provided by the employer is not taxable to the employee if:

1) The employee must wear the clothing as a condition of employment, and;
2) The clothes are not suitable for everyday wear.

It is not enough that the employee wear distinctive clothing; the employer must specifically require the clothing as a working condition. Nor is the test met because the employee does not, in fact, wear the work clothes away from work. The clothing must not be suitable for taking the place of regular clothing.

Sheriffs' Office – The Sheriff's Office purchases uniforms from local vendors for new employees. The annual uniform allowance is a maximum of $600 a year which is paid to the vendors' on behalf of the employees' and is not taxed. Under the IRS guidelines the Sheriff's office did not have an accountable plan during 2011; there for all payments from the allowance account should have been taxable to the employee. On August 14, 2012, the Sheriff's Office revised its uniform policy which is more in line with an accountable plan, however does not contain all of the elements of an accountable plan as detailed above.

Security Department – The Security Office purchases uniforms from local vendors for new employees. The annual uniform allowance is a maximum of $325 a year with a carry-over up to $1,000 a year which is paid to the vendors' on behalf of the employees' and is not taxed. Under the IRS guidelines the Security Department did not have an accountable plan during 2011; there for all payments from the allowance account should have been taxable to the employee.

Luzerne County Correctional Facility – The Correctional Department purchases uniforms from local vendors for new employees. Under the collective bargaining agreement each union employee is entitled to the following clothing allowance each year: $425 assigned to a designated clothing store selected by the Union Member and $200 for uniform maintenance in a separate check to each employee which is taxed. Certain positions receive the full $625, which is taxed to obtain their own uniforms at a cheaper price than the clothing store designated by the county; this practice was not addressed in the collective bargaining agreement. In addition the collective bargaining agreement stated that non-union personnel are to receive a lump sum payment of $450 for clothing each year, according to the management this is a typo and should have read non-uniformed personnel. During 2011, management personnel each received a lump sum payment of $650 which was taxed, however there was not a written policy for the management employees regarding the amount of the clothing allowance. Under the IRS guidelines the Correctional Department did not have an accountable plan during 2011; there for all payments from the allowance account should have been taxable to the employee.

General Ledger

Procedures: We obtained the general ledger detail for the accounts listed below. We scanned these accounts for unusual transactions and selected our sample of payments to test. Payroll charges selected for testing were traced to the detailed payroll records, indicating each employee and amount of the payment they received towards their uniform allowance. Other payments selected were traced to the supporting invoice. The invoice was evaluated to determine if the charge was within the County's policies applicable to the uniform allowance. In addition the charges were evaluated to determine if the uniform payments were taxable to the employee under IRS Regs. Sec. 1.62. We noted the following exceptions for each department listed below:

Sheriff's Office – Our sample size consisted of 17 invoices. The following exceptions were noted in our sample.

- Five payments were made for one or more of the following taxable purchases: T-shirts, sock and briefs.
- There were multiple purchases of boots, it appears that these boots are suitable for every- day use and would be taxable.
- Two purchases for flash lights which are considered equipment not uniforms.

Security Department – Our sample consisted of 8 invoices, one payment for socks which is a taxable purchase was noted. In addition there were several purchase for boots, jackets, BTU pants and shoes, it appears that these items are suitable for every-day use and would be taxable.

Luzerne County Correctional Department- Our sample consisted of 110 invoices and noted the following exceptions.

- Forty-two invoices were missing.
- Thirty payments were made for one or more of the following taxable purchases: T-shirts, fleece lined sweater, fleece caps, socks and boxers.
- One payment was made for a watch valued at $292.80.
- In addition there were several purchases for boots, jackets, and belts, it appears that these items are suitable for every-day use and would be taxable.
- Twelve payments were made for one or more of the following items that should have been charged to supplies or equipment; mace, flash-light, batteries and hand cuff keys.

This report is intended solely for the information and use of the Controller's Office and County's Management and is not intended to be and should not be used by anyone other than these specified parties.

Hall - Mihalos Straub & Co. LLP

December 20, 2012