



Date: September 28, 2026

To: Sheryl M.M. Long, City Manager

From: Lauren Sundararajan, CFE, Internal Audit Manager *LS*

Copies to: Internal Audit Committee
Andrew Dudas, Budget Director
Steve Webb, Finance Director

Subject: Federal Income Tax Withholding Remittance Audit

Attached is the Federal Income Tax Withholding Remittance audit report. The primary objective of this audit was to verify that proper controls are in place to ensure that federal income tax withholding is properly calculated, withheld, and remitted to the Internal Revenue Service (IRS) in accordance with Internal Revenue Code (IRC) section 3402 and any other applicable regulations. This audit was conducted in accordance with the current audit agenda.

We would like to thank the management and staff of the Finance Department for their assistance and cooperation during this audit.

If you need any further information, please contact me.

Attachment

Federal Income Tax Withholding Remittance Audit

September 2026



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Executive Summary

Internal Audit (IA) conducted a performance audit of the Finance Department's federal income tax withholding remittance process. The primary objective of this audit was to verify that proper controls are in place to ensure that federal income tax withholding is properly calculated, withheld, and remitted to the Internal Revenue Service (IRS) in accordance with Internal Revenue Code (IRC) section 3402 and any other applicable regulations.

IRC section 3402 requires employers to calculate and withhold federal income tax from employee wages in accordance with IRS withholding tables and employees' Form W-4 information. The Payroll section of the Accounts and Audits Division (Payroll) is responsible for overseeing and calculating the federal income tax withholdings for active employees, while the Retirement Department (Retirement) oversees and calculates the federal income tax withholdings for retirees. The Treasury Division (Treasury) is responsible for remitting federal income tax payments to the IRS on behalf of both entities.

The audit identified opportunities to strengthen the internal controls within the federal income tax withholding process. One example is the reassignment of process ownership and oversight for remitting retirees' federal income tax withholdings to the IRS from Treasury to Retirement. This would better align process ownership with functional responsibilities and increase efficiency.

IA also found that current policies and procedures need updating. The documented policies and procedures do not clearly identify backup personnel responsible for critical steps involving the federal income tax withholding process. When primary staff are unavailable, establishing and documenting alternative staff to perform critical tasks would ensure the continuity of operations, reduce the risk of missed or delayed payments, and ensure compliance with IRS requirements.

Additionally, IA found that staff awareness is limited regarding current IRS guidelines. Annually, the IRS publishes information for employers concerning the federal income tax withholding process. One document in particular, *2025 Publication 15, Circular E, An Employer's Guide to Federal Income Tax*, provides employers with details concerning how to withdraw, calculate, and deposit their federal income taxes. Staff's limited awareness of this document increases the risk that the City of Cincinnati (City) may not fully comply with IRS guidelines.

Overall, to strengthen the internal controls over the federal income tax withholding process, IA recommends the following: reassign the retirees' federal income tax payment process from Treasury to Retirement, update policies and procedures, and ensure all Payroll staff are familiar with IRS guidelines and communicate pertinent information Citywide to ensure compliance with federal standards. Implementing these recommendations will ensure proper internal controls have been established in the federal income tax withholding process.

I. Introduction

Background

IRC section 3402 requires employers to calculate and withhold federal income tax from employee wages in accordance with IRS withholding tables and employees' Form W-4 information. The employment taxes paid by the City include federal income, state income and Medicare. Payroll is responsible for managing and calculating the federal income tax withholding process for active employees and depositing taxes biweekly. The Payroll manager communicates to the Human Resources Liaisons (HRLs) through continuous training the importance of employees completing Form W-4 and addressing any payroll changes or discrepancies discovered in paychecks.¹

Additionally, Retirement is responsible for managing the federal income tax withholdings process for retirees. Monthly federal income tax withholdings are paid to the IRS for those who receive pension payments. The department has a team of employees that are responsible for ensuring the retirees' federal income tax withholdings are accurately calculated, and Form W-4 is current.

Collectively, these two entities send their payment requests to Treasury. Treasury is responsible for authorizing the online payments to the IRS and ensuring the federal tax obligations are paid on time.

¹ The HRLs do not report to the Payroll manager but are employees designated with specific HR duties to carry out at the department level.

Audit Selection

IA conducted this audit in accordance with the Audit Work Plan.

Audit Objective

The primary objective of this performance audit was to verify that proper controls are in place to ensure that federal income tax withholding is properly calculated, withheld, and remitted to the IRS in accordance with IRC section 3402 and any other applicable regulations.

Audit Scope and Methodology

In order to achieve the objective, IA compared current practices to the IRC, reviewed pertinent policies and procedures, interviewed appropriate staff, and analyzed statistics of relevant data. Records reviewed included payroll reports, tax withholdings, and remittance documentation from calendar year (CY) 2026.

Statement of Auditing Standards

As required by the Cincinnati Administrative Code Article II §15, this audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS), except for standard 5.60 pertaining to external peer review requirements. This exception did not have a material effect on the audit.

IA continues to conduct internal quality reviews to assure conformance with applicable GAGAS. IA performed fieldwork between July and August of 2026.

Commendations

IA commends the staff of the Finance Department for their cooperation throughout the audit.

II. Audit Findings and Recommendations

Process ownership and oversight for remitting retirees' federal income tax withholdings to the IRS should be reassigned.

IA met with Treasury and Retirement personnel and identified an opportunity to enhance process ownership and oversight for remitting retirees' federal income tax. Treasury is currently responsible for remitting federal income tax withholdings to the IRS for both Payroll and Retirement. However, IA noted that Retirement independently remits other financial obligations directly to other entities without Treasury involvement. Given Retirement's existing remittance responsibilities, addressing this opportunity would better align process ownership with functional responsibilities and increase efficiency.

Recommendation 1: Reassign the retirees' federal income tax payment process from Treasury to Retirement.

Department Response: Agree. Treasury has successfully transitioned pension IRS payment to Retirement.

The policies and procedures associated with the federal income tax withholdings process need updating.

Updating policies and procedures is necessary to ensure responsibilities are clearly defined, processes operate as intended, and staff consistently perform the required tasks. Adequate documentation is particularly important for time-sensitive processes, such as remitting federal income tax withholdings to the IRS.

While the policies and procedures are well written and comprehensive, IA found that they do not identify backup personnel responsible for performing critical tasks in the absence of primary staff. Establishing and documenting alternative staff would ensure the continuity of operations, reduce the risk of missed or delayed payments, and ensure compliance with IRS requirements.

Recommendation 2: Update the policies and procedures by designating primary, secondary, and tertiary staff responsible for completing critical tasks.

Department Response: Agree. SOPs that reflect the Retirement personnel responsible and backup have been updated.

Staff awareness of applicable federal guidelines is limited.

IRS publishes annually tax guides for employers that outline their federal tax responsibilities.² One document in particular provides guidance on withholding, depositing, reporting, paying, and correcting employment taxes. It also identifies the forms that must be provided to employees, forms employees must complete and submit to their employers, and forms that must be filed with the IRS. Additionally, *2025 Publication 15, Circular E, Employer's Tax Guide* includes a calendar of filing deadlines, responsibilities to be completed each payday, quarter, and year, and federal record retention requirements.

² 2025 Publication 15, Circular E, Employer's Tax Guide.

IA inquired with Payroll about its knowledge of this publication and found it is limited. For example, the IRS suggests that W-4s be reviewed annually by employees, and when necessary, make changes. Although Payroll communicates to HRL's the importance of employees reviewing and completing their W-4s when they are initially hired, Payroll is not aware if departments are performing the task yearly. Incorporating these IRS guidelines into the payroll process Citywide may simplify aspects of Payroll's administrative responsibilities, increase operational efficiencies, and avoid tax complications for employees at a later time.

Recommendation 3: Ensure that all IRS publications are circulated to relevant Payroll employees, shared with HRLs, and followed by departments Citywide.

Department Response: Agree. The Payroll Manager has subscribed to the IRS e-News for Tax Professionals service to receive timely updates on payroll tax requirements, including changes to withholding tables and Publication 15-T guidance. Payroll will communicate relevant IRS updates to all payroll staff and distribute important information electronically to HRLs citywide. In addition, the Payroll Manager participates in ongoing professional development through GFOA payroll training courses and monthly PeopleSoft SIG meetings to stay current on regulatory and industry changes.

III. Conclusion

Employers are responsible for calculating and withholding federal income tax from employee wages in accordance with IRS withholding tables and employees' Form W-4 information. Employment taxes paid by the City include federal income, state income and Medicare. To improve the internal controls over the federal income tax withholding process, IA recommends the following: reassign the retirees' federal income tax payment process from Treasury to Retirement, update policies and procedures, and ensure all Payroll staff are familiar with IRS guidelines and communicate pertinent information Citywide to ensure compliance with federal standards. Implementing these recommendations will ensure proper internal controls have been established in the federal income tax withholding process.

IV. Finance Department Response

Recommendation 1: Reassign the retirees' federal income tax payment process from Treasury to Retirement.

Recommendation 2: Update the policies and procedures by designating primary, secondary, and tertiary staff responsible for completing critical tasks.

Department Response: Agree. Treasury has successfully transitioned pension IRS payment to Retirement. Please see attached revised SOPs that reflect the Retirement personnel responsible and backup.

Recommendation 3: Ensure that all IRS publications are circulated to relevant Payroll employees, shared with HRLs, and followed by departments Citywide.

Department Response: Agree. The Payroll Manager has subscribed to the IRS e-News for Tax Professionals service to receive timely updates on payroll tax requirements, including changes to withholding tables and Publication 15-T guidance. Payroll will communicate relevant IRS updates to all payroll staff and distribute important information electronically to HRLs citywide. In addition, the Payroll Manager participates in ongoing professional development through GFOA payroll training courses and monthly PeopleSoft SIG meetings to stay current on regulatory and industry changes.