

The background of the page features a large, faint, light purple seal of Kane County, Illinois. The seal is circular with a scalloped outer edge. Inside the seal, the words "SEAL OF THE COUNTY OF KANE" are written around the top, and "STATE OF ILLINOIS" around the bottom. In the center, there is a date "JAN. 16, 1836" and a diamond-shaped emblem.

OFFICE OF THE KANE COUNTY AUDITOR

Penny Wegman, Kane County Auditor

Kane County Travel Policy Audit

November 26th, 2025

Porfirio Lara
Chief Deputy Auditor

Robert Quillinan
Emma Saveley
Mayte Castellanos
Staff Auditors

719 S. Batavia Ave, Geneva, IL 60134
(630) 232-5915

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Executive Summary

Objective:

The objective of this audit was to evaluate the Kane County Travel Policy to ensure compliance with IRS regulations for accountable plans, assess clarity and usability for employees, and identify areas where the policy exposes the County to unnecessary risk.

Key Findings:

- The current policy satisfies the general framework of an accountable plan but lacks specific definitions (e.g., local vs. non-local travel, official worksite, alternative worksite) leading to ambiguity and inconsistent application.
- Provisions for meal reimbursements during local travel do not align with IRS regulations, creating potential tax liabilities and exposure to penalties.
- The policy fails to specify procedures for returning excess funds, which is a required element of accountable plans.
- Mileage reimbursements for commuting and work-from-home scenarios are insufficiently defined, increasing the risk of misinterpretation and non-compliance.
- A county-wide employee survey revealed confusion, with some employees choosing not to submit reimbursements due to vagueness in the policy.

Conclusion:

The Kane County Travel Policy, though functional, requires significant revision to protect the County from IRS penalties, reduce ambiguity, and improve fairness and consistency.

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Objective & Scope

Objective:

To evaluate the effectiveness, clarity, and IRS compliance of the Kane County Travel Policy, and identify areas of improvement to reduce liability and increase usability for County personnel.

The office of the Kane County Auditor will perform the necessary actions to complete the audit under the applicable law of Illinois State Statute 55 ILCS 5/3-1005(g): “Maintain a continuous internal audit of the operations and financial records of the officers, agents or divisions of the county. The county auditor shall have access to all records, documents, and resources necessary for the discharge of this responsibility”.

Scope:

- Review of the County Travel Policy (Amended by Res. 24-277, July 9, 2024).
- Review of Kane County Ordinance: 2-72 Travel Expenses Generally.
- Benchmarking against IRS regulations on accountable plans, fringe benefits, and travel reimbursements.
- County-wide employee survey assessing ease of understanding and application of the Travel Policy.
- Consideration of IRS Internal Revenue Manual sections on fringe benefit audits.
- Verify if the current Kane County Travel Policy is an “Accountable Plan”
 - An accountable plan is a reimbursement or other expense allowance arrangement between the employer and the employee, if it meets the following requirements: Business Connection, substantiation/evidence, and returning amounts in excess of the expense incurred; Treas. Reg. Section 1.62-2(c)(2). If the accountable plan fails to meet all three requirements, it is now a nonaccountable plan, which makes all reimbursements taxable.

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Analysis

IRS Compliance Gaps

- **Local Travel Meals:** Current policy allows department heads to approve meal reimbursements for local travel, which conflicts with IRS rules (IRC §162(a)(2); §274(k)). This may expose the County to tax penalties.
- **Undefined Terms:** Key terms such as “local travel,” “non-local travel,” “official worksite,” “alternative worksite”, and “WFH: Work from Home” were not defined, leading to misinterpretation.
- **Commuting Mileage & WFH:** IRS rules distinguish commuting from reimbursable business mileage (Rev. Rul. 99-7). The policy lacked clarity on mileage from residences to temporary worksites, causing inconsistent application.
- **Excess Funds:** The absence of a return-of-funds procedure violates IRS requirements for accountable plans, potentially converting reimbursements into taxable wages.

Employee Feedback

- **Survey Findings:**
 - Nearly half of respondents rated policy clarity as “average” or lower.
 - 62% believed the policy is too vague in places.
 - 6 employees chose not to submit reimbursement claims due to confusion.
- **Implication:** Lack of clarity discourages employees from claiming entitled reimbursements, negatively affecting morale and fairness.

IRS Audit Risk (Internal Revenue Manual)

- The Internal Revenue Manual (IRM) is the official compilation of IRS policies, procedure and guidelines that IRS employees are required to follow when administering tax laws, performing duties or executing IRS operations.
- Internal Revenue Manual (IRM 4.23.5.15.4) requires Internal Revenue Service Agents to review written policies on fringe benefits. The absence of specific, IRS-aligned language may lead IRS Agents to expand review scope and impose penalties.

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Recommendations

1. Revise Policy Language:

- Revise the policy to include IRS-compliant verbiage on business meals, Official Worksite, Alternative Worksite, and Local Travel. Clarify mileage and Work from Home rules (WFH).

Conclusion

The Kane County Travel Policy, in its current form, lacks sufficient precision to fully comply with IRS accountable plan requirements. These deficiencies create financial liability, increase audit risks, and reduce employee confidence.

Responses

Finance Department: The Finance Department will work to revise the County Financial Policies to ensure compliance with IRS accountable plan requirements.

Appendices

- **Exhibit A:** Internal Revenue Manual excerpts on fringe benefits and audit techniques (IRM 4.23.5.15.4, 2023 Revision).



MANUAL TRANSMITTAL

Department of the Treasury
Internal Revenue Service

4.23.5

NOVEMBER 9, 2023

EFFECTIVE DATE

(11-09-2023)

PURPOSE

- (1) This transmits a revision to IRM 4.23.5, Employment Tax, Technical Guidelines for Employment Tax Issues.

MATERIAL CHANGES

- (1) This IRM was revised to reflect the following material changes:

Item	Subsection	Change
a.	IRM 4.23.5.1.3	Added paragraph (3) that states the Chief, Employment Tax, is responsible for ensuring examiners follow the guidance included in this IRM.
b.	IRM 4.23.5.1.5	Added and deleted acronyms for clarity and use.
c.	IRM 4.23.5.1.6	Updated Taxpayer Bill of Rights (TBOR) content in paragraph (3) and Taxpayer Advocate Service (TAS) information in paragraph (4). Added disclosure and privacy provisions in paragraph (5).
d.	IRM 4.23.5.3.4.1	Added paragraph (4) to reflect the guidance provided in CCA 202038010 and all succeeding paragraphs were renumbered.
e.	IRM 4.23.5.5.1	Corrected paragraph (4) by placing unanchored instruction into the bullet list. Included additional resources in paragraph (6)
f.	IRM 4.23.5.8	Clarified paragraph (2) that Indian Tribal Governments (ITG) is to be contacted through Specialist Referral System (SRS).
g.	IRM 4.23.5.13.2	Added paragraph (2) to reminded examiners to review Schedule R (Form 941) information in the EUP. All succeeding paragraphs were renumbered.

Item	Subsection	Change
h.	IRM 4.23.5.16.1.1	Corrected the title of subsection from "Section 409A" to "IRC 409A." Added paragraph (8) to provide a link to additional resources,
i.	IRM 4.23.5.16.3	Corrected references throughout the subsection and added note to paragraph (3) regarding abatement provisions of IRC 3402(d).
j.	IRM 4.23.5.17	Split paragraph (2) into two paragraphs ((2) and (3)) and all succeeding paragraphs were re-numbered.
k.	IRM 4.23.5.19	Changed the phrase "Virtual Currency" to "Digital Asset" based on communication from with Deputy Commissioner - Services & Enforcement Office Digital Assets Initiative (DAI) team. The decision was made to use the term Digital Assets and not Virtual Currency, or like terms.
l.	IRM 4.23.5.20.1	Split paragraph (1) into two paragraphs ((1) and (2)) and all succeeding paragraphs were re-numbered.
m.	IRM 4.23.5.21	Revised and clarified paragraph (4).
n.	IRM 4.23.5.22	Added new paragraphs (3) and (4) to incorporate Interim Guidance Memorandum SBSE 04-0222-0001, Interim Guidance on FinCEN Access, dated February 2, 2022. All succeeding paragraphs were renumbered. Revised paragraph (5) (formerly paragraph (3)). Revised paragraph (8) (formerly paragraph (6)) for examiners without access to the FCQ System to follow the procedures provided in IRM 4.26.4.5.4, Gatekeeper or Super User Procedures, paragraph (3).

Item	Subsection	Change
o.	IRM 4.23.5.23	Expanded information and procedures regarding IRC 41 or commonly known as Research Credit due to changes in Inflation Reduction Act of 2022.
p.	IRM 4.23.5.24	Added subsection to incorporate Interim Guidance Memorandum SBSE-04-1122-0059, Interim Guidance for Examination of COVID-19 Credits and Deferrals, dated November 8, 2022. The memorandum provided information regarding certain tax credits eligible employers may claim against applicable employment taxes to provide economic relief due to the COVID-19 pandemic.

- (2) Editorial changes made throughout the IRM for clarity. Reviewed and updated grammar, plain language, titles, IRM references, IRS organization or organization terminology to business unit and reorganized content.

EFFECT ON OTHER DOCUMENTS

IRM 4.23.5, dated August 14, 2020, is superseded.. This IRM incorporates the following Interim Guidance Memorandum:

SBSE-04-1122-0059, Interim Guidance for Examination of COVID-19 Credits and Deferrals, dated November 8, 2022.

SBSE 04-0222-0001, Interim Guidance on FinCEN Access, dated February 2, 2022.

AUDIENCE

This section contains instructions and guidelines for all Large Business & International (LB&I), Tax Exempt/Government Entities (TE/GE), and Small Business/Self-Employed (SB/SE) employees dealing with employment tax issues.

Richard L. Tierney
Director, Examination
Small Business/Self-Employed Division

4.23.5

Technical Guidelines for Employment Tax Issues

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Exhibit A

- b. The employer's requirement that the employee be available to speak with clients at times when the employee is away from the office or at times outside the employee's normal work schedule (i.e., clients are in different time zones).
- (5) The following is an example of a reimbursement arrangement that does **not** result in additional income or wages. An employer has a substantial non-compensatory business reason for requiring the employee to maintain a personal cell phone to facilitate communication with the employer's clients during hours outside the employee's normal tour of duty in the office and reimburses the employee for the use of the phone. The employee uses the cell phone for both business purposes and personal purposes and the employee's basic coverage plan charges a flat rate per month for a certain number of minutes for domestic calls. The employer reimburses the employee for the monthly basic plan expense to enable the employee to maintain contact with business clients throughout the United States after hours.
- (6) Examples of reimbursement arrangements that **may** be in excess of the expenses reasonably related to the needs of the employer's business and will be examined more closely include:
 - a. Reimbursement for international or satellite cell phone coverage to a service technician whose business clients and other business contacts are all in the local geographic area where the technician works, or
 - b. A pattern of reimbursements that deviates significantly from a normal course of cell phone use in the employer's business (for example an employee received reimbursements for cell phone use of \$100 per quarter in quarters 1 through 3, but receives a reimbursement of \$500 in quarter 4).

4.23.5.15.4
(11-22-2017)

**Audit Techniques for
Identifying Fringe
Benefits**

- (1) Fringe benefits can be a significant form of compensation, and examiners should consider fringe benefit issues during an examination. Fringe benefits can be identified from a number of sources. Examiners should inspect the following documents and records, if available:

Documents and Records
Employee benefits handbook
Union agreements
Employment contracts (particularly those for executives)
Annual financial reports
SEC reports such as Form 10-K and proxy statements
Taxpayer's web site
Corporate minutes
Chart of accounts
Written policies and procedures regarding fringe benefits
Accounts payable journal

Documents and Records

Schedule M-1 (Form 1120), Reconciliation of Income (Loss) per Books With Income per Return or Schedule M-3 (Form 1120), Net Income (Loss) Reconciliation for Corporations With Total Assets of \$10 Million or More, workpapers

General ledger accounts that include employee benefits

Payroll journals

- (2) Examiners should also look at expense categories that are less obvious but may include fringe benefits such as miscellaneous expenses, meetings, automobile expense, insurance, tax preparation, and travel expense reimbursements.
- (3) When discussing fringe benefits with the taxpayer, it is important that examiners communicate with the appropriate parties. For example, personnel in the payroll department may not have the same awareness of benefits as those in the human resources department. Discussions with other IRS personnel who may be involved in the examination are also important because they may encounter potential employment tax issues in the course of their assigned examinations to be addressed in the employment tax exam.

4.23.5.15.5
(11-22-2017)
Reporting Fringe Benefits

- (1) Non-cash fringe benefits are includible in the employee's wages in either the pay period, the quarter or any other period the employer chooses, as long as the fringe benefits are treated as paid at least once per calendar year. Employers do not have to make the same election for all employees and may change their election as frequently as they desire. Employers may treat the value of non-cash fringe benefits provided during the last two months of the calendar year or any shorter period as paid during the subsequent calendar year. Refer to Announcement 85-113, which provides the rules for the timing of inclusion in wages.
- (2) Fringe benefits are subject to all employment taxes including social security, Medicare, FUTA, and FITW unless special rules apply.

4.23.5.16
(11-22-2017)
Executive Compensation

- (1) LB&I employment tax cases may include issues generally associated with executives and other highly compensated employees. Because of restrictions on qualified retirement plans, particularly discrimination restrictions, more top-paid employees are relying on nonqualified plans, as well as stock-based compensation and golden parachute arrangements, to ensure job security and provide additional retirement benefits.
- (2) LB&I implemented the Corporate Executive Compliance (CEC) Strategy to support the Service-wide goal of improving compliance of high-income taxpayers. The CEC focuses on executive compensation issues, tax shelter issues, and non-filing by executives. The key officer and executive returns compliance check requirements have been updated to allow agents to use their professional judgment, knowledge of the taxpayer's operations, and other available information to determine whether inspection of executive returns is warranted. See IRM 4.46.3-6 , Inspection of Key Officer and Executive Returns.