



6/29/2018

Auditor-Controller
Internal Audit
Public Guardian Special Request
Audit, SR2017-01

Final Report

Table of Contents

EXECUTIVE SUMMARY	1
BACKGROUND	1
<i>GENERAL.....</i>	<i>1</i>
<i>AUDIT SPECIFIC</i>	<i>2</i>
MISAPPROPRIATION ASSET FRAUD.....	3
OBJECTIVE, SCOPE, AND METHODOLOGY	5
AUDIT RESULTS, RECOMMENDATIONS AND MANANAGMENT RESPONSES	6
<i>A. DOCUMENTATION NOT RETAINED FOR COLLECTION OF CONSERVATEE CASH RESULTING IN POSSIBLE OPPORTUNITY FOR MISAPPROPRIATION OF ASSETS.....</i>	<i>6</i>
<i>B. UNTIMELY DEPOSIT</i>	<i>8</i>
<i>C. INTERNAL CONTROLS FOR PUBLIC GUARDIAN FINANCIAL SPREADSHEET</i>	<i>9</i>
<i>D. INTERNAL CONTROLS FOR PUBLIC GUARDIAN ACCOUNTING SOFTWARE</i>	<i>12</i>
<i>E. ACCOUNTING OUTSIDE OF AUDITOR-CONTROLLER'S OFFICE</i>	<i>14</i>
<i>F. OBSOLETE IN-HOUSE SOFTWARE APPLICATION.....</i>	<i>16</i>
<i>G. INFORMATION TECHNOLOGY MAINTAINS PUBLIC GUARDIAN IN-HOUSE SOFTWARE.....</i>	<i>18</i>
<i>H. DEPUTY PUBLIC GUARDIAN TRAINING AND CERTIFICATION.....</i>	<i>20</i>
AUDIT STANDARDS AND ADMINISTRATION.....	21
POST-AUDIT CONFERENCES.....	21
ACKNOWLEDGEMENTS	21
ACFE FRAUD TREE.....	22
IA COMMENTS ON MANAGEMENT RESPONSES.....	23

County of Sutter Auditor-Controller
INTERNAL AUDIT
Public Guardian Special Request Audit, SR2017-01
Official Use Only

EXECUTIVE SUMMARY

Per your request, Internal Audit (IA) comprehensively reviewed the Public Guardian (PG) transactions processed from January 1, 2014, through December 5, 2017, to determine if controls were in place and operating effectively to protect from unauthorized actions of department employees.

Based on the results of the audit tests performed, IA identified missing transactions from the PG financial spreadsheets and accounting software application. IA determined the PG internal controls from an operational perspective provide reasonable assurance that the department will achieve its objectives, with one exception identified in the audit results below. However, from an accounting perspective, IA identified significant weaknesses in PG's internal controls.

Reasonable assurance recognizes internal control has inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls. Significant weakness is a deficiency or combination of deficiencies in internal controls over financial data.

BACKGROUND

General

The PG-Conservator-Administrator provides mandated conservatorship and estate administration services as specified by the Probate Code and Welfare and Institution's Code.

The services of the PG may be provided through a separate county department, an elected official, or incorporated into a larger department such as health and human services. Public conservator services are often provided by the PG, but the responsibilities may be shared with mental health departments. The Public Administrator (PA) may be an elected official, a separate department, or housed within another county department, such as sheriff-coroner, treasurer, or PG-conservator.

The PG serves as conservator of a person and estate of individuals needing protective intervention. The two types of conservatorship, Lanterman-Petris-Short (LPS) and probate, can only be established by order of the superior court. As probate conservator, PG's are involved in many aspects of their conservatees' lives, including financial management, housing, medical care, placement, and advocacy. As LPS conservator, PG's are responsible for directing the mental health treatment and placement of their conservatees. Referrals for probate conservatorship usually come from another community agency, institution, or physician. Referrals for LPS conservatorship can only come from a psychiatrist who is affiliated with a Short-Doyle hospital.

County of Sutter Auditor-Controller
INTERNAL AUDIT
Public Guardian Special Request Audit, SR2017-01
Official Use Only

The PA is also responsible for administering the estate of a county resident who dies without a will or family in California. Estate administration may include marshaling all assets, selling the real or personal property, performing heir searches and overseeing the distribution of the estate. These activities are supervised by the superior court. The PA may also supervise the county's indigent burial program.

Audit Specific

The office of PG functions as a division of Sutter County Health and Human Services Welfare & Social Services (HHSW) organization. The PG office is a small department with a total of three employees; the PG-Conservator, a Deputy PG-Conservator, and an Office Assistant II. For much of 2017, PG operated with a staffing shortage. Arrangements were made to rehire a part-time retiree to assist during the staff shortage, and the HHSW department does provide additional assistance as needed

The PG serves persons who cannot provide basic services for themselves and do not have family members, friends or others who are willing or able to initiate conservatorship proceedings on their behalf or, ultimately, to serve as conservators upon a determination by the court that a conservatorship is required.

As of November 1, 2017, the PG had 48 LPS active conservatorships and 30 active probate conservatorships. Also, one LPS and one probate conservatorships were pending.

Although most of the persons served by the PG are destitute, recently a few conservatees have estates that must also be managed by the PG. The PG provides comprehensive fiduciary management to the conservatees.

The PG staff are not assigned to specific conservatees. Instead, the staff works on whatever needs to be done for any of the conservatees. In general, the process starts with PG receiving a referral. Based on the referral the PG or deputy PG will meet with the individual and complete a conservatorship investigator's report. PG will request conservatorship via the courts. Once the conservatee is assigned to PG, two PG employees meet with the conservatee and remove all personal financial-related assets and documents (checks, invoices, cash, etc.). PG employees complete an inventory of items removed and checks are destroyed, and bank accounts are closed.

PG is subject to the laws outlined in the California Probate Code and belongs to the California Association of Public Administrators, Public Guardian, and Public Conservators (CAPAPGPC).

County of Sutter Auditor-Controller
INTERNAL AUDIT
Public Guardian Special Request Audit, SR2017-01
Official Use Only

Misappropriation Asset Fraud

The fraud triangle consists of perceived opportunity, perceived rationalization, and perceived pressure. Asset misappropriation fraud happens when people who are entrusted to manage the assets of others steal from them. Asset misappropriation schemes most often involve the theft of cash.

Asset misappropriation frauds (see ACFE Fraud Tree below) fall into two main categories: theft of cash and theft of non-cash assets.

Asset misappropriation frauds may occur under different circumstances:

- assets are taken before they are recorded in the books or records,
- assets are taken while they are currently held by the employee/department, or
- assets are taken during the process of purchasing goods or service.

Type of asset misappropriation frauds includes:

- Skimming – acts where funds are taken by the perpetrator before the funds are recorded.
- Cash larceny – acts that involve the theft of funds after they are recorded.
- Fraudulent disbursements – cover a wide variety of schemes, such as false invoices, altering or forging checks, false claims of expenses, etc.
- Non-cash larceny and misuse – stealing or misuse of non-cash items for personal use.

Organizations with weak internal controls are especially susceptible to fraudulent asset misappropriation schemes.

Internal control weaknesses include a lack of segregation of duties, physical safeguards, independent checks, proper authorization, proper documents, overriding existing controls, and inadequate accounting system. Many fraud studies have found that overriding existing internal controls creates the greatest opportunity for asset misappropriation schemes. A good system of internal controls will help to deter and prevent asset misappropriation.

In general, individuals involved in fraudulent schemes tend to live beyond their means and struggle with financial difficulties. Fraud perpetrators often have a “wheeler-dealer attitude,” and many refuse to take vacations from work. Finally, many fraud perpetrators have personal problems and exhibit signs of irritability and defensiveness.

County of Sutter Auditor-Controller
INTERNAL AUDIT
Public Guardian Special Request Audit, SR2017-01
Official Use Only

The red flags for asset misappropriation fall into six categories:

- Accounting anomalies, such as faulty journal entries, inaccuracies in ledgers, or fictitious documents,
- Internal control overrides and breakdowns,
- Analytical fraud symptoms, basically anything out of the ordinary,
- Lifestyle symptoms,
- Unusual behaviors, and
- Tips and complaints that something is suspicious.

County of Sutter Auditor-Controller
INTERNAL AUDIT
Public Guardian Special Request Audit, SR2017-01
Official Use Only

OBJECTIVE, SCOPE, AND METHODOLOGY

To determine if controls were in place and operating effectively to protect from unauthorized actions of department staff.

The scope included procedures and practices in place as of October 2017 and focused on the financial transactions processed from January 1, 2014, through December 5, 2017, and included in PG's monthly financial spreadsheets, software application, and the Umpqua bank account. The purpose of the review was to identify any potentially unauthorized transactions, and any weaknesses in the protection of the court assigned conservatees.

To achieve the audit objectives, IA:

- Reviewed the department procedures and practices;
- Conducted interviews;
- Using ACL software, Microsoft Excel, and PG's software application IA reviewed 100% of the 14,412 transactions, totaling \$7,152,700.22. Also, IA reviewed the PG monthly financial spreadsheets transactions.
- These transactions were compared to the transactions posted through the PG Umpqua bank account.
- IA analyzed 75 of the 101 conservatees' incomes and expenses by charting the data changes between calendar years to identify and understand anomalies.

Due to inherent limitations in any system of internal controls, errors or irregularities may occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Accordingly, IA's review would not necessarily disclose all weaknesses in the PG's operating procedures, accounting practices, or compliance with regulations.

The purpose of the audit report is to furnish management with independent and objective analyses, recommendations, and information concerning activities reviewed. The audit report is a tool to help management discern and implement specific improvements. The audit report is not an appraisal or rating of management.

Internal controls are processes designed to provide management reasonable assurance of achieving operational efficiency, compliance with laws and regulations, the reliability of financial information, and to safeguard conservatee assets.

Although IA exercised due professional care in the performance of the audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud will be detected. Specific areas for improvement are addressed later in this report.

County of Sutter Auditor-Controller
INTERNAL AUDIT
Public Guardian Special Request Audit, SR2017-01
Official Use Only

AUDIT RESULTS, RECOMMENDATIONS and MANANAGMENT RESPONSES

A. Documentation Not Retained for Collection of Conservatee Cash Resulting in Possible Opportunity for Misappropriation of Assets

Management stated it was their understanding that approximately \$4,000 in cash was collected from one conservatee in September of 2017. However, the actual deposit to the bank was \$2,492. Additionally, the PG employee failed to adhere to the department's procedure of dual custody of the cash asset. When IA requested the documentation for this cash transaction the only record in the file was for the \$2,492. Missing were the standard notes and documents surrounding the collection of the cash.

As identified above, skimming is one type of asset misappropriation where funds are removed by the perpetrator before the funds are recorded in the victim's account. Also, one red flag in an embezzlement scheme, such as asset misappropriations, are missing source documents.

Unfortunately, in this situation, PG management was unable to provide any proof of the \$4,000 cash and based on the health of the conservatee IA was unable to discuss the issue directly with the conservatee.

Without proper documentation, IA was unable to eliminate the possibility of misappropriation of cash funds received by PG on behalf of the conservatee. Also, PG failed to follow their processes regarding the initial collection of conservatee financial assets.

Recommendation:

A1. IA recommends PG clarify and document existing requirements regarding the collection of conservatee assets and reinforce record retention requirements.

Management Response

A.1. Concur. See H&HS management background and response below.

Recommendation:

A.2 IA recommends PG ensure dual custody requirements are met for the collection of all conservatee assets. The dual custody requirements must include a backup plan for staffing shortages.

County of Sutter Auditor-Controller
INTERNAL AUDIT
Public Guardian Special Request Audit, SR2017-01
Official Use Only

Management Response

A.2. Concur. See H&HS management background and response below.

H&HS Management Background

During the entrance interview, the Internal Auditor asked for an overview of the Public Guardian (PG) program. At that time the Public Guardian-Conservator gave a brief overview of the program and went over cash handling procedures. She presented two separate cash handling examples; one of which reflects a time when proper cash handling procedures were not followed.

- Example 1: (Proper procedure followed) PG collected \$4,553.63 cash from conservatee A. Per proper protocol, PG collected the cash with a witness present, and documented how much money was collected. Brought the cash to the business office where it was counted by two individuals. Signatures of all parties that verified the cash were obtained, and all documented verification was stored in the client's file.
- Example 2: (Procedure not followed) PG collected and deposited \$2,492.00 from conservatee B, with no witness to verify the amount was collected. PG also did not obtain signatures of the individual(s) who could verify the total deposit. At the time, there was no additional PG employee to assist with the collection of assets. An income receipt was the only document stored in the client's file.

H&HS Management Response to Recommendation

While Example 2 reflects a time when the proper protocol was not followed and allows for misappropriation of assets when the issue in example 2 was discovered PG management took steps to ensure that all PG staff are aware of the proper procedures and policies to follow during the collection of assets. PG management stressed the importance of following dual custody requirements when it comes to the collection of assets.

Management is recommending the following occur due to the result of this audit finding:

- Annual training on cash handling procedures and collection of assets should be completed and signed off by each employee. The signature authorizes that each employee read the policy and agrees to follow all applicable procedures.
- Per collection of assets procedure, dual custody requirements must be enforced. Per Example 2, there was no backup plan due to PG staff shortage. In the event of a PG staff shortage, PG will ask any available employee at Behavioral Health to assist with the collection of all assets.

A.1 & A.2

Responsible Manager: Nancy O'Hara, Health & Human Services Director

Implementation Date: December 31, 2018

County of Sutter Auditor-Controller
INTERNAL AUDIT
Public Guardian Special Request Audit, SR2017-01
Official Use Only

B. Untimely Deposit

A check for \$1,014.00 recorded in the accounting software on February 10, 2016, was not deposited until March 1, 2016. The \$1,014.00 check was comingled with other checks for a deposit total of \$6,108.32 on March 1, 2016.

Good internal controls should include requirements that receipts be deposited at least weekly or daily if receipts are large. Requiring the prompt deposit of all receipts prevents an employee from making use of the collected funds for a few days before depositing it.

Recommendation:

B. IA recommends PG review the Sutter County Cash Handling Procedures manual and integrate the internal controls into the PG cash handling process.

Management Response:

B. Concur. See H&HS management background and response below.

H&HS Management Background

PG confirmed that deposits are made on a weekly basis. If PG receives a large amount of cash, PG will make additional trips to the bank. In this case, PG held on to a \$1,014.00 check for greater than one week. The check was recorded on February 10, 2016, and deposited on March 1, 2016. It was confirmed via bank statement that no other deposits were made from February 10, 2016, to March 1, 2016. While there is a risk of embezzlement from employees, no cash was deposited. All deposits held during this time was in the form of checks.

H&HS Management Response to Recommendation

PG agrees that Sutter County Cash Handling Procedures should be integrated into the PG cash handling process. Per the Sutter County Cash Handling Procedure, all cash receipts should be deposited daily, and all checks receipts should be deposited weekly. It will become a standard practice to integrate these procedures into PG cash handling process.

Responsible Manager: Nancy O'Hara, Health & Human Services Director
Implementation Date: December 31, 2018

County of Sutter Auditor-Controller
INTERNAL AUDIT
Public Guardian Special Request Audit, SR2017-01
Official Use Only

C. Internal Controls for Public Guardian financial spreadsheet

During the review of the spreadsheet transactions January 1, 2014, through December 5, 2017 (10018 lines of data) IA identified 232 disbursement errors on the PG financial spreadsheets. Errors included missing check numbers, incorrect check numbers, incorrect amounts, incorrect conservatee identified, and transactions weren't properly voided as follows:

- Seventy (70) checks totaling \$27,680.57 were listed as transactions however they were voids. Too many to list individual check numbers.
- Twenty-one (21) checks totaling \$10,307.40 had a status of the void. However, the amount was not reversed to zero out the transactions.
- Forty-four (44) check numbers were missing from spreadsheet and PG accounting software program.
 - Six of these check numbers were entered as other check numbers. The six checks cleared the bank for a total of \$2,204.00 (116303, 116614, 117589, 119444, 123165, 123166).
 - The remaining 38 have not cleared the bank.
- Forty-nine (49) checks totaling \$17,373.17 were voided in accounting program but not on the spreadsheets
- Seven check numbers were incorrectly recorded.
 - 116304 vs. 116303
 - 116588 vs. 116614
 - 117142 vs. 171142
 - 117605 vs. 117589
 - 119441 vs. 119442 - 444
 - 122166 vs. 123166
 - 122165 vs. 123165 and 123166
 - Some of these checks cleared the bank totaling \$7,935.01
- Check (1) 123086 totaling \$0 was reversed for \$50.99. However, the original amount was zeroed out on the spreadsheet.
- Check (1) 116217 totaling \$40.00 was reversed for \$0. Should be reversed as (\$40.00)
- Three checks were entered as duplicates including amounts (116133, 117089, 118840).
- Four (4) checks totaling \$414.07 were old (Aug 2016 through Feb 2017), but not voided (120654, 120721, 121200, 121928)
- Five (5) checks totaling \$1060.00 were entered with wrong amounts, wrong conservatee, wrong check number (117604, 117605, 119441-119443)
- Twenty-four (24) checks totaling \$4,823.45 were entered on spreadsheets incorrectly (119975, 119977, 119978, 120075, 120148, 120420, 120534, 120543, 122239-42, 122464-66, 122988-89, 122990-95, 119977).

County of Sutter Auditor-Controller
INTERNAL AUDIT
Public Guardian Special Request Audit, SR2017-01
Official Use Only

- Three (3) checks totaling \$424.16 were identified as issued on a spreadsheet but voids in the accounting program (119090, 119402, 120324)

To obtain additional clarification, IA discussed some of the issues directly with PG management.

Per the PG “Tasks and Procedures of the Account Clerk II Position” document, the data in the financial spreadsheets is transferred using a copy/paste function directly from the PG accounting software. PG uses the spreadsheets to confirm the accuracy of the accounting software. However, it appears adjustments were made to the exported spreadsheets, but not all adjustments were carried back into the actual accounting system. Furthermore, often said adjustments are not documented as to why they’re being made.

In today’s environment, spreadsheet applications are used for a variety of tasks such as: calculating accounting estimates, tracking workflow processes, financial reporting, etc. However, without proper controls, a spreadsheet application can be an incubator for compounding issues leading to an avalanche of misinformation.

Recommendation:

C. IA recommends PG work with the Auditor-Controller’s office to establish the necessary controls to ensure the accuracy of the PG financial spreadsheet data.

Management Response:

C. Concur with the understanding that HHS Administration/Finance branch will work with the Auditor-Controller’s office to establish the necessary internal controls. See H&HS management background and response below.

H&HS Management Background

IA identified 232 disbursement errors (2.3% error rate); however, after further review, approximately 165 errors were identified out of a sample of 10,018 transaction lines dated from January 1, 2014, to December 5, 2017, equating to an error rate of 1.64%. This initial reduction in errors is due to a single check being listed twice as a disbursement error due to their “location” on a spreadsheet.

Management believes that the voided checks are accounted for in the spreadsheet, and after removing these voided checks from the disbursement errors, the number is reduced to 98 disbursement errors, equating to an error rate of 0.98%.

PG utilizes a spreadsheet to assist with reconciliation between the PG application and the bank statements. There are times when adjustments and/or voids are required due to an incorrect conservatee, a deceased conservatee or an incorrect vendor. When these instances occur, it is noted in the spreadsheet. Per PG process, all checks issued are inputted in the checks written tab within

County of Sutter Auditor-Controller
INTERNAL AUDIT
Public Guardian Special Request Audit, SR2017-01
Official Use Only

PG internal accounting spreadsheet. When there is a void or adjustment, it is backed out on the adjustment tab and summarized on the cover sheet. Within the adjustment tab, PG will note what the reason was for the adjustment along with the date, check # and conservatee name.

IA noted that the spreadsheet was missing certain check numbers. After further review, the PG was unable to reconcile 6 checks from the auditor's disbursement error list.

When there is a check misprint, PG does not enter the check number into their spreadsheet or application. The past practice has been to document the misprint in a monthly folder and keep the physical check in that file. When the bank statement comes, the missing check number is verified by looking at the misprinted checks in the monthly file. While management believes that funds are not at risk of being misallocated by this practice, it does not meet best accounting practices and will be addressed. At this time, the check printer is also the office printer, and if an employee is printing checks and does not notify other employee(s), then documents can get printed on check stock or checks may get printed on the non-check stock.

H&HS Management Response to Recommendation

Management will be researching PG specific accounting software that will be able to complete bank reconciliations, print checks and process payments and receipts. This will allow PG to focus more on the clients and to meet their needs.

PG will be requesting a dedicated check printer and will begin recording misprinting checks as voided checks on the reconciliation spreadsheet.

In addition, the Health and Human Services Administration and Finance Branch will be consolidating in FY 2018-19 and will assume the financial duties of the PG as allowed by regulation/law to ensure best practices and proper internal controls are established and maintained.

Responsible Manager: Nancy O'Hara, Health & Human Services Director
Implementation Date: December 31, 2018

County of Sutter Auditor-Controller
INTERNAL AUDIT
Public Guardian Special Request Audit, SR2017-01
Official Use Only

D. Internal Controls for Public Guardian Accounting Software

IA identified the following errors:

1. SSI reduction (\$1,507.00) for November 2013 did not get recorded until January 10, 2014, in the accounting software. Additionally, this deposit-in-transit did not show as an outstanding item on the December bank reconciliation.
2. Deposit on March 3, 2015, of \$2,765.14, however only \$2,604.35 identified (\$965.17, \$1639.18) in app. Difference is \$160.79.
3. Deposit on March 3, 2015, of \$31,122.85. However, \$31,827.85 recorded in the app. The difference of \$705.00. The \$705.00 did not get reversed until March 31, 2015.
4. Deposit recorded of \$318.00 in PG software application on June 3, 2014, but was not part of a deposit. The \$318.00 did not get reversed until July 11, 2014.
5. September 25, 2017 deposit rejection of \$11,000.00 not recorded.
6. October 2, 2017, redeposit not recorded.
7. The historical practice of not identifying deposit transactions in a cleared status in the accounting software program.

These items were discussed directly with PG management.

Best practices suggest internal controls are policies and procedures that protect the assets of an organization, create reliable financial reporting, promote compliance with laws and regulations, and facilitate effective and efficient operations.

Recommendation:

D. IA recommends working with Auditor-Controller's office to establish internal controls to ensure the accuracy of the data input.

Management Response:

D. Concur with the understanding that HHS Administration/Finance branch will work with the Auditor-Controller's office to establish the necessary internal controls. See H&HS management background and response below.

H&HS Management Background

IA identified seven deposit errors from the PG. After further review, PG has the following explanations:

- Conservatee received an SSI direct deposit on November 3, 2013, for \$1,507. Conservatee passed away on November 16, 2013, and SSI direct debit his bank account on December 3, 2013. During the December bank reconciliation that was performed in January 2014,

County of Sutter Auditor-Controller
INTERNAL AUDIT
Public Guardian Special Request Audit, SR2017-01
Official Use Only

this was discovered, and a line item was added as a void in the Adjustments tab of the PG financial spreadsheet.

- The same situation occurred with a second conservatee with an SSI direct deposit of \$705.00 (regarding the March 3, 2015, deposit -bullet point #3 on the IA Report), and a third conservatee for \$318.00 (regarding the June 3, 2014, deposit – bullet point #4 in Section D of the IA Report).
- For the deposit of \$2,765.14 verified by the bank statement on March 4, 2015; PG Management believes that there was no error. Per PG application dated March 4, 2015, PG was able to locate the missing \$160.79; this amount was entered in the 2015 check and receipts spreadsheet/receipts tab. The other two amounts (\$965.17 and \$1,639.18 were posted on March 3, 2015, to both the PG application and the spreadsheet).
- November 25, 2017, and October 2, 2017, a deposit of \$11,000 was returned due to no check endorsement. The bank credited the account to a pending status, however, gave the checks back to PG to get signed and return for deposit. Once the checks were returned, the bank released the funds. Due to this action, PG did not re-record the deposit within their accounting software. However, this transaction was noted in the bank reconciliation. (Please note this covers two deposit errors)

H&HS Management Response to Recommendation

Management will be researching PG specific accounting software that will be able to complete bank reconciliations, print checks and process payments and receipts. This will allow PG to focus more on the clients and to meet their needs.

In addition, the Health and Human Services Administration and Finance Branch will be consolidating in FY 2018-19 and will assume the financial duties of the PG as allowed by regulation/law to ensure best practices and proper internal controls are established and maintained.

Responsible Manager: Nancy O'Hara, Health & Human Services Director
Implementation Date: December 31, 2018

County of Sutter Auditor-Controller
INTERNAL AUDIT
Public Guardian Special Request Audit, SR2017-01
Official Use Only

E. Accounting Outside of Auditor-Controller's Office

The PG accounting system is completely independent of the county financial system, and while the PG does submit a copy of the monthly bank reconciliation to the County Treasurer for confirmation, no documentation has historically been provided to the Auditor-Controller (A-C) office which would allow for the auditing of these transactions. Rather, the accounting system transactions, which consist of income and expense information for each conservatee, are maintained and reviewed solely by PG employees. Because proper accounting of a conservatee's income and expense information is crucial to maintaining eligibility for certain government assistance programs, any failure to properly maintain those accounts places a conservatee at risk of losing those benefits. Moreover, for needs-based benefits such as Supplemental Security Income (SSI), a failure to properly account for the conservatee's income could result in an overpayment to that conservatee for which the County may ultimately become responsible.

PG management stated that they monitor the income levels of their SSI conservatees to prevent a possible overpayment and reduction in future SSI benefits but that staffing shortages have made it difficult to ensure that all accounts are maintained at the appropriate levels. As a result, the County has been placed in a position of having to petition the Social Security Administration for a waiver of those overpayments. -

Currently, the A-C maintains the county's financial accounting system (OneSolution) and accounts for many other fiduciary fund transactions, which includes pension trust funds, investment trust funds, and agency trust funds. The A-C is responsible for issuing warrants (checks) for payments, recording receipts of revenues, payroll, accounting for assets and liabilities, such as fixed assets, and preparation of the county's financial statements, to name a few.

While IA understands the PG conservatees income and expenses are considered non-county transactions the lack of accounting oversight may result in outcomes that may impact the general fund.

Recommendation:

E. IA recommends PG management work with the A-C to determine a feasible solution to the PG accounting oversight.

Management Response:

E. Concur with the understanding that HHS Administration/Finance branch will work with the Auditor-Controller's office while developing our solution to PG accounting oversight through the newly formed HHS Admin/Finance branch. See H&HS management background and response below.

County of Sutter Auditor-Controller
INTERNAL AUDIT
Public Guardian Special Request Audit, SR2017-01
Official Use Only

H&HS Management Background

The Public Guardian/Conservator provides, through Court order, administration of estates and personal affairs of those who are deemed incompetent or gravely disabled. To administer services to their clients, PG is held to many standards and rules. For instance, monitoring client's eligibility of SSI and/or Medi-Cal. Each month, PG runs a report for each conservatee to track income from SSI. Once a client exceeds \$2,000 in their bank account, PG will notify SSI and suspend any distribution due to ineligibility; however, there is typically a delay in this process which may result in the conservatee owing SSI. For instance, if Mr. Doe has a bank account balance of \$2,020 on December 31st and SSI issues a bank deposit of \$1,000 on January 1st, then on February 1st SSI is going to collect their January 1st disbursement of \$1,000. Therefore, PG is responsible for ensuring that their clients remain eligible for services required through SSI and notifying SSI as soon as possible once ineligible. On occasion, if PG knows ahead of time that the conservatee will be ineligible, PG can ask SSI to put a hold on any subsequent SSI benefits until further notice.

H&HS Management Response to Recommendation

It is not entirely accurate that the County may become responsible for the overpayment of SSI. Typically, in these cases, SSI will withhold a negotiated and reasonable portion of the conservatee's total monthly distribution amount. This will ensure that the amount owed will get re-paid without impacting services to the client as well as ensuring no risk to the county general fund.

PG has done a remarkable job in ensuring their conservatee's needs are being met while monitoring their cash flow to maintain SSI benefits. However, there are times when this will not be recognized until it is too late and repayment is evident. PG will be researching software that would monitor accounts monthly through the system versus having PG staff pull reports from each conservatee individually. This would allow PG staff to make necessary adjustments ahead of time.

In addition, the Health and Human Services Administration and Finance Branch will be consolidating in FY 2018-19 and will assume the financial duties of the PG as allowed by regulation/law to ensure best practices and proper controls are maintained.

Responsible Manager: Nancy O'Hara, Health & Human Services Director
Implementation Date: December 31, 2018

County of Sutter Auditor-Controller
INTERNAL AUDIT
Public Guardian Special Request Audit, SR2017-01
Official Use Only

F. Obsolete In-House Software Application

PG uses an in-house created software application to process cash receipts and disbursements for each assigned conservatee. While this system helps PG fulfill some of its responsibilities, it has significant limitations. This limited software is responsible for the finances of approximately 70 conservatees.

- The in-house application is a stand-alone application with no interfaces to other systems.
- The in-house application resides on the PG's local area network and maintained by the County's Information Technology (IT) department.
- The in-house application is antiquated and does not meet the current business needs of the PG department.

At one time in-house created software may have been the only option available. However, today other options are available, such as the current county software (OneSolution) or another PG focused software program. Also, bringing the PG accounting into the county financial accounting system would help with the following:

- Accurate reporting
- Reduction in the number of spreadsheets
- Elimination of an in-house software application
- Elimination of IT separation of duties concern

Recommendation:

F. IA recommends PG management prioritize the replacement of the in-house application. The replacement system must enhance PG operational efficiencies.

Management Response:

F. Concur. See IT and H&HS management background and response below.

IT Management Background

In 2004, the Public Guardian requested that IT develop a check writing and accounting program specifically for their use. What IT developed and released in 2005 suited the Public Guardian's basic needs at the time. Over the ensuing years, additional enhancements were desired; however, the Public Guardian did not have funding to pay for any additional development work. As a result, this custom program became antiquated and incapable of providing the full scale of features desired. The perception at the time was that the Public Guardian did not have the necessary fiscal support of Welfare and Social Services or the County's budgeting process to advance the program's feature set and improve staff productivity.

County of Sutter Auditor-Controller
INTERNAL AUDIT
Public Guardian Special Request Audit, SR2017-01
Official Use Only

IT Management Response to Recommendation

IT agrees that the best solution, at this point, is to replace the in-house application with a commercial, third-party solution. Ideally, the County's financial system, ONESolution, should be utilized to replace this function. As an alternative, a software system specializing in Public Guardian accountancy could also be vetted.

IT strongly recommends that Superior be engaged to determine the viability of using ONESolution for Public Guardian accountancy. Our initial analysis indicates that developing a solution in the financial system may not meet all requirements and may not retain the desired existing features as well as potentially involve considerable time, effort and cost.

IT is ready to advise and assist the Auditor-Controller's Office and the Public Guardian in selecting a commercial, third-party product that would meet business needs and also provide the accounting visibility that is needed to prevent fraud, waste and abuse.

H&HS Management Response to Recommendation

Management will be researching PG specific accounting software that will be able to complete bank reconciliations, print checks and process payments and receipts. This will allow PG to focus more on the clients and to meet their needs.

Responsible Manager: Ken Sra, Information Technology, Deputy Director, and Nancy O'Hara,
Health & Human Services Director

Implementation Date: December 31, 2018

County of Sutter Auditor-Controller
INTERNAL AUDIT
Public Guardian Special Request Audit, SR2017-01
Official Use Only

G. Information Technology Maintains Public Guardian In-House Software

Several years ago the Sutter County IT department created an in-house accounting program for PG and continued to maintain the program on behalf of PG. Also, IT is responsible for setting up new vendors requested by the PG.

Good separation of duty methods address conflicts of interest, the appearance of a conflict of interest, and fraud. It puts a barrier in place to prevent fraud that may be perpetrated by one individual. As an example, a software developer should never have access to the production system. As a general principle development and production should always be separate with no crossover. One of the hardest positions to control is a database administrator (DBA) position. Therefore DBA's should only have DBA authority, not root or administrator authority.

Recommendation:

G. IA recommends PG work with IT to enforce segregation of duties by assigning someone outside of the DBA authority to set-up vendors.

Management Response:

G. Concur. See IT and H&HS management background and response below.

IT Management Background

When IT initially developed the web program for the Public Guardian, it was mutually decided that vendor setup should be conducted by IT to avoid any issues with new vendor accounts. Whether this was necessary or not, IT does not have an opinion, but the separation of duties was established at that time.

With respect to separation of duties for DBA, developers, and access to the production system, we are a small division that does not have the luxury of excess staff and resources to provide separate positions for each of those functions. In a larger organization, this can be achieved and likely is the norm; however, for an IT organization of our size, doing so is impractical and infeasible with our limited staffing. Our programming and development staff are multifunctional through necessity. Sutter County IT staff have long been accustomed to wearing many "hats" in order to fulfill our mission while keeping staffing levels at a bare minimum.

County of Sutter Auditor-Controller
INTERNAL AUDIT
Public Guardian Special Request Audit, SR2017-01
Official Use Only

IT Management Response to Recommendation

IT is quite willing to provide the Public Guardian with the ability to set up new vendors. Doing so can be readily achieved and can be enabled if we are directed to do so.

H&HS Management Response to Recommendation

Management will be researching PG specific accounting software that will be able to complete bank reconciliations, print checks and process payments and receipts. This will allow PG to focus more on the clients and to meet their needs.

In addition, the Health and Human Services Administration and Finance Branch will be consolidating in FY 2018-19 and will assume the financial duties of the PG as allowed by regulation/law to ensure best practices and proper internal controls are established and maintained.

Responsible Manager: Ken Sra, Information Technology, Deputy Director, and Nancy O'Hara,
Health & Human Services Director

Implementation Date: December 31, 2018

County of Sutter Auditor-Controller
INTERNAL AUDIT
Public Guardian Special Request Audit, SR2017-01
Official Use Only

H. Deputy Public Guardian Training and Certification

While the Health and Human Services department requires all staff to participate in monthly six-minute training programs, IA identified the CAPAPGPC requires 40 hours of continuing professional education (CPE) over a four year period to maintain certification. However, the deputy PG employee did not meet the association's requirements due to a shortage of staff.

However, as of January 1, 2008, all PG's are required by California State Probate Code (Division 4, Part 5, Chapter 3, 2923) to comply with continuing education requirements that are established by the CAPAPGPC.

The CAPAPGPC provide training and certifications to help prepare staff to meet the demands of their job. Professional training can include outside, in-house, and regional training, courses, or workshops. CAPAPGPC requires that training must be given by a provider which has been provided by the Association. Certification non-compliance is noted in the Associations system.

Recommendation:

H. IA recommends management ensure all employees in the role of PG or deputy PG comply with California State Probate Code (Division 4, Part 5, Chapter 3, 2923).

Management Response:

H. Concur. See H&HS management response below.

H&HS Management Response to Recommendation

The Public Guardian-Conservator has submitted the following training opportunities for 2018:

- CA PA/PG/PC Regional Conference held in Sacramento on May 17 and May 24th. She will earn 12 CA PA|PG|PC certification credits.
- PAPGPC Annual Conference held in Palm Springs on September 17-20th. She will earn 20+ CA PA|PG|PC certification credits.

Her attendance at these two trainings will ensure that she is completing 40 hours of CPE over a 4-year period.

Responsible Manager: Nancy O'Hara, Health & Human Services Director

Implementation Date: December 31, 2018

County of Sutter Auditor-Controller
INTERNAL AUDIT
Public Guardian Special Request Audit, SR2017-01
Official Use Only

AUDIT STANDARDS AND ADMINISTRATION

The audit was conducted in accordance with generally accepted government auditing standards, except that a Peer Review has not been performed. These standards require that Internal Audit plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the judgments and conclusions based on our audit objectives. We believe that our evidence provides a reasonable basis for our findings and conclusions based on our audit objectives.

POST-AUDIT CONFERENCES

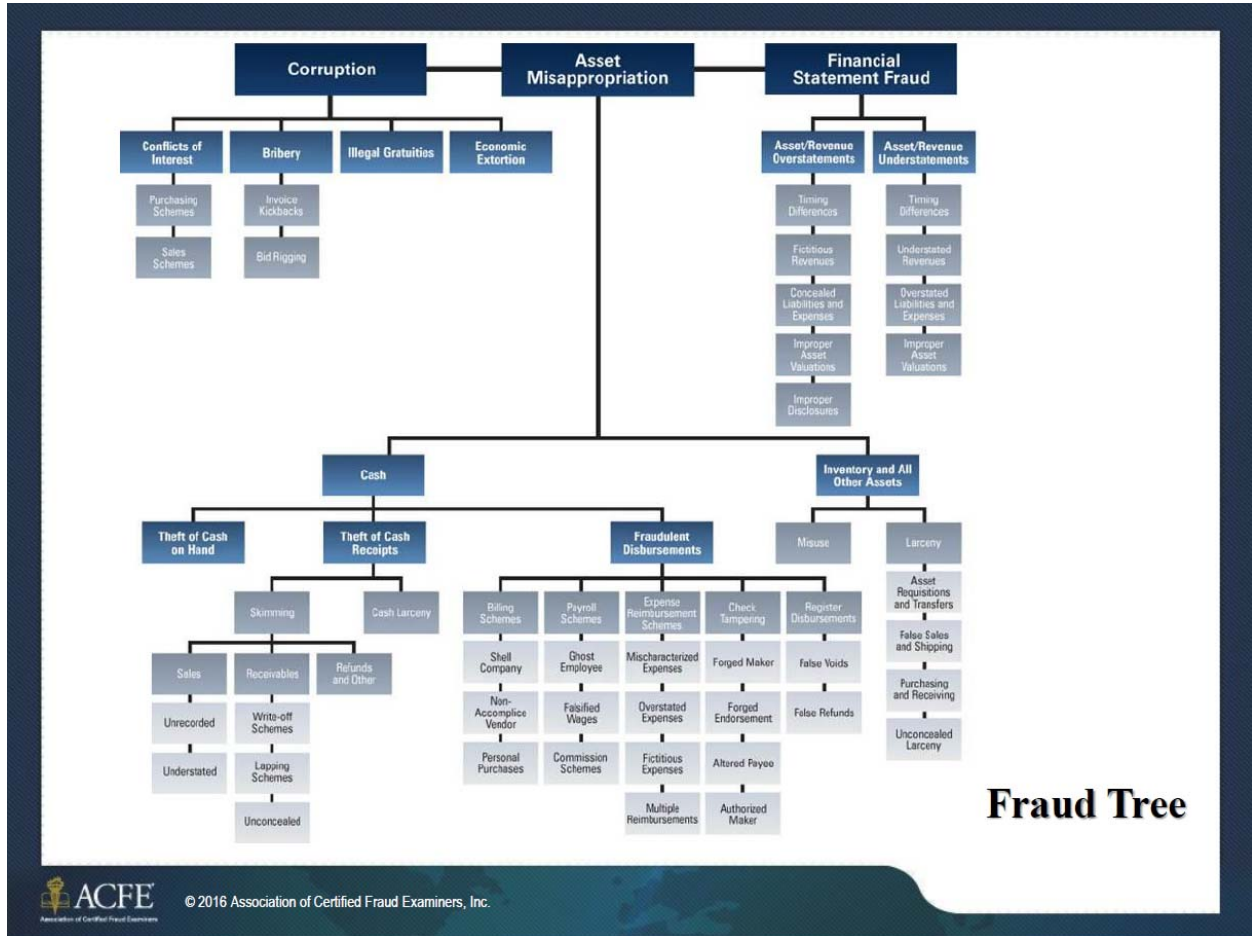
A draft of this audit report was issued to HHSW and PG management team on February 15, 2018. The exit conference was held on March 15, 2018, with the appropriate department and IA staff and management in attendance. All findings were discussed in detail with management, and conference participants were provided a copy of the draft report before the exit conference. Management responses were received March 20, 2018. Further management responses were received on May 8, 2018.

ACKNOWLEDGEMENTS

Internal Audit would like to thank the H&HS, IT, and County Counsel management and staff for their cooperation throughout this audit.

County of Sutter Auditor-Controller
INTERNAL AUDIT
 Public Guardian Special Request Audit, SR2017-01
 Official Use Only

ACFE Fraud Tree



Fraud Tree

County of Sutter Auditor-Controller
INTERNAL AUDIT
Public Guardian Special Request Audit, SR2017-01
Official Use Only

Internal Audit's Comments on Management Responses

To provide clarity and perspective, we are commenting on Health & Human Services management responses to our audit. The four rebuttals below correspond to the various findings.

A. In the entrance interview, management stated it was their understanding that approximately \$4,000 in cash was collected for a conservatee, but the deposit to the bank was only \$2,492.

During fieldwork, IA investigated the discrepancy with management. IA reviewed bank records which only showed a deposit in the amount of \$2,492. Further, management staff was unable to show that the approximate \$4,000 was recorded in the accounting system. Lastly, IA found that the standard notes and documents surrounding the collection of the cash was missing from the files. As a result, IA could not confirm the exact amount received by PG staff.

In response to this finding, management claims that only \$2,492 was collected and deposited. However, IA questions this assertion since management was unable to provide an explanation or documentation to resolve the discrepancy in amounts. Therefore, IA stands by the audit conclusions and recommendations.

C. IA identified 232 disbursement errors related to the financial spreadsheets, not check number errors. While disbursement errors are identified for the same check number, the detail covers multiple conservatee expenses paid on one check equating to multiple disbursement errors. Also, some check numbers created multiple errors, so they were identified more than once.

While IA agrees that excluding misprints, voids and duplicate check number reduces the total number of errors it does not address the issue of PG inaccurate financial spreadsheets. As mentioned, inaccurate financial spreadsheets can be an incubator of compounding issues leading to an avalanche of misinformation. Therefore IA stands by the audit conclusions and recommendations.

D. While management has provided an explanation for each of the issues identified, IA remains concerned with the lack of or weak internal controls. Also, while management's response provides a possible solution for an IT system to better serve their operational needs, the response certainly does not address the immediate need for internal controls. Therefore, IA stands by the audit conclusions and recommendations.

E. IA stands by the audit conclusions and recommendations.