
**REPORT TO THE ERIE COUNTY LEGISLATURE
92 FRANKLIN STREET
BUFFALO, NEW YORK 14202**

SEPTEMBER 2008

**AUDIT OF THE DEPARTMENT OF SENIOR SERVICES
PROTECTIVE SERVICES FOR ADULTS PROGRAM AND UNIT**



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**HON. MARK C. POLONCARZ
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95 FRANKLIN STREET
BUFFALO, NEW YORK 14202**

September 23, 2008



Erie County Legislature
92 Franklin Street, 4th Floor
Buffalo, New York 14202

Dear Honorable Members:

The Erie County Comptroller's Office has completed an audit of the Erie County Department of Senior Services' ("Senior Services"), Protective Services for Adults program and unit ("PSA"), for the period January 1, 2006 to May 31, 2008.

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.

Our objectives were to determine whether client-owned assets were adequately safeguarded against theft, and unauthorized or improper use, and that Senior Services obtained reasonable value upon the sale of client-owned assets.

The scope of our audit included tests of transactions of cash receipts and cash disbursements from the operational checking account which holds PSA client funds. This audit also included an evaluation of Senior Services' internal controls over cash receipts, and cash disbursements of client funds and tests related to the fiduciary responsibilities of PSA to its clients. Tests of non-fiduciary activities were specifically excluded from this audit. Additional details concerning the methodology employed in this audit are discussed in Appendix A.

SUMMARY:

We noted two significant instances of non-compliance with written procedures and deficiencies in written procedures related to the financial operations of client assets.¹

- 1) We found that payment requests for checks made payable to case managers contained errors on forty-four percent (44%) of the transactions tested. These checks were drawn from individual client sub-accounts. The errors were due to a lack of proper written procedures, a bypass of procedures, or a failure to adhere to standard operating procedures on the part of PSA case managers and their supervisors, and PSA fiscal personnel. Payment requests usually resulted in the delivery of cash from the case managers to the clients, therefore the risk created by these transactions is considered to be high.
- 2) Detailed inventory records of client assets are not maintained by the PSA staff. The lack of such records prevented an assessment of whether reasonable value was obtained from the sale of client-owned personal property.

The existing practices in PSA related to the transaction cycle for checks made payable to case managers provide an opportunity for misplacement, theft, or embezzlement of client funds. Failure to adhere to standard operating procedures, on the part of the PSA unit and fiscal employees was the primary failure mechanism for these transactions.

PSA has initiated corrective action in response to these findings. Significant findings were communicated by this office to PSA supervisors via written and oral communications.

Details of the preceding findings, in addition to findings of lower significance, may be found in the section entitled "AUDIT RESULTS and RECOMMENDATIONS."

REPORTING REQUIREMENTS:

A draft copy of this report was provided to Senior Services for their review. Their comments were considered in the preparation of this report. A summary of their comments and our response to those comments is included in Appendix B.

¹ In 2008, the Erie County Comptroller's Office Division of Accounting facilitated a change in accounting systems utilized for recording transactions and writing checks on behalf of PSA clients. Effective July 18, 2008, PSA client transactions are processed on SAP. The use of Quick Books, a PC-based accounting system, was discontinued on this date. The recommendations in this report are based on the duties which remain the sole responsibility of the Department of Senior Services' PSA fiscal and case management staff.

BACKGROUND:

Senior Services was created in 1971 and subsequently was designated an Area Agency on Aging under Title III of the Older Americans Act. Senior Services is responsible for advocating on behalf of older persons in Erie County, and for representing the needs, interests, and concerns of older persons to public officials and others.²

PSA is a unit within Senior Services. PSA programs were created to address the problems of elder abuse (60+ years old), and the abuse of younger mentally or physically impaired adults.³

Adults in need are evaluated by the "intake" function within PSA. An individual's needs, including the level of fiduciary care required, are determined during this phase. Three levels of fiduciary care are available, including, from highest to lowest level of care: Guardian of Property ("guardianship"), Power of Attorney ("POA"), and Representative Payee ("rep-payee").

A guardian controls all fiduciary and legal affairs for a client. The Commissioner of Senior Services ("Commissioner") is appointed the guardian of clients through a court order. A POA document empowers the Commissioner to execute a specific list of duties for a finite time period as stated on the POA document. A client must have the mental capacity to understand the consequences of signing such a document. PSA may be designated as the rep-payee for a client. PSA controls and manages a client's Social Security benefits in a manner which best serves a client's needs, as rep-payee. The United States Social Security Administration determines who will serve as a client's rep-payee. PSA is designated as a rep-payee via a letter from the Social Security Administration.

PSA employs twenty-one individuals, including fourteen case managers, two case manager supervisors, four part-time aides, and one supervisor for the PSA unit. PSA case managers are assigned to manage the care for a group of clients. Financial transactions are initiated by case managers and processed by a fiscal staff which reports through the Grants Administration Unit. The fiscal staff includes two clerks and a fiscal funds manager. The fiscal team retains all financial documentation, and prepares all reports required to comply with laws related to the fiduciary level of care provided to clients.

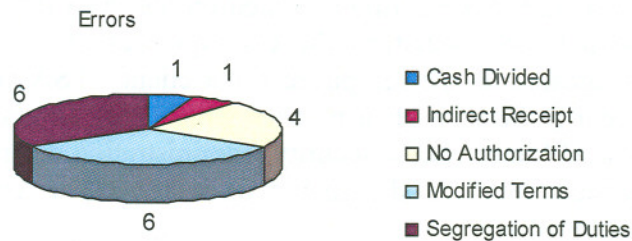
² From Erie County Department of Social Services web site "Fact Sheet".

³ From Erie County Department of Social Services web site "Health" section.

AUDIT RESULTS AND RECOMMENDATIONS:

Significant findings:

- 1) Payment requests for checks made payable to case managers contained numerous errors. Payment requests are initiated by case managers and processed by the fiscal staff. We found forty-four percent (44%) of transactions tested contained errors. The pie chart below displays the distribution of eighteen (18) errors found on a sample of forty-one (41) payment request forms, "OFA/PSA/11A." Twenty-nine (29) clients were included in the sample. The most serious errors were the result of a bypass of internal controls. Among the transactions we tested, four (4) transactions were processed by the fiscal unit without the authorization of a case manager supervisor. Segregation of duties was breached on six (6) transactions which were authorized by case manager supervisors who also had custody of the funds from the transactions. Modifications to terms were found on six (6) items. The cash from one transaction was delivered in two (2) separate payments. In one (1) recurring transaction, the client received funds indirectly. Checks were cashed by case managers each month and then the cash was deposited into the client's personal bank account. The details of this finding were communicated to PSA via Interim Audit Memorandum #3.



Check registers were obtained for checks made payable to case managers for a sample of teams. We found nine hundred eighteen (918) checks written to case managers valued at over one hundred sixty (160) thousand dollars, during the audit period, for the sample of teams tested. These checks were usually cashed by case managers, and the funds were then delivered to clients.

In addition, an inspection of items held in the PSA safe revealed that seven (7) checks payable to case managers were outstanding for twenty-seven (27) to thirty-seven (37) days, and three envelopes of cash for clients were from checks written eight (8) to twenty (20) days earlier.

WE RECOMMEND that PSA, together with the fiscal staff, review the payment request process and develop a written procedure that includes explicit instructions for completing form "OFA/PSA/11A." In addition, controls should be included to periodically monitor, review and compare the number of payment requests each team initiates. Training should be provided for all staff on the new procedures.

WE ALSO RECOMMEND that the PSA supervisors review outstanding checks payable to case managers on a weekly basis due to the cash nature of these transactions.

- 2) Detailed inventory records of client assets are not maintained by the PSA staff. The lack of such records prevented an assessment of whether reasonable value was obtained from the sale of client-owned personal property. The results are based on an inspection of the fiscal files of a sample of guardianship clients out of a total of seventy (70) guardianship clients. The details of this finding were communicated to PSA via Interim Audit Memorandum #1.

WE RECOMMEND that PSA establish procedures requiring that all significant client assets be inventoried and recorded in an inventory log. Procedures should also include that inventory records be compiled for all client property deemed appropriate for sale. A copy of the inventory records should be retained in each client's fiscal file.

Additional Findings:

- 1) Cash receipts received by mail in Senior Services were not always deposited in a timely manner. The receipts were otherwise recorded and dispositioned properly. Seven (7) items out of a sample of one hundred forty-three (143) items tested were deposited five (5) or more business days after receipt. Timely deposits reduce the risk of lost or stolen receipts.

WE RECOMMEND that the fiscal unit follow its procedure for deposits.

- 2) Ten (10) void checks out of a sample of fifty (50) could not be traced to the void check register. Alternate testing determined that three (3) of the ten (10) checks were improperly coded, and the remaining seven (7) of ten (10) checks were deleted from the Quick Books register. The controls in place detected the missing checks and the fiscal unit implemented restrictions on access to commands in Quick Books to remedy this situation.

Internal Controls:

We also have concerns regarding internal controls in the PSA unit at Senior Services as follows:

- 1) Mail is opened by a single individual. Receipts are also recorded by this individual.
- 2) The fiscal funds manager and the Senior Services supervisor of grants administration have approval responsibility and access to recordkeeping. In addition, both individuals had access to blank check stock during the audit period.

- 3) No signature stamp was used during the audit scope period. All checks were signed by hand by any one of three Senior Services employees.
- 4) The fiscal staff recorded transactions, wrote checks, and had access to blank check stock during the period under audit.

These four internal control findings were considered during our assessment of control risk and during the subsequent planning of tests of transactions. Other controls in place compensated for these findings during the audit period. Items two through four are no longer areas of concern, because, as previously noted, effective July 18, 2008, check writing and check signing duties were transferred to the Office of the Comptroller's Division of Accounting, accounts payable unit.

CONCLUSIONS:

We believe that the policies and procedures in use by PSA and the fiscal staff adequately safeguard the assets of clients against theft, and unauthorized or improper use, except for policies and procedures related to payment requests for checks payable to case managers.

We cannot express an opinion on whether reasonable value was obtained upon the sale of client-owned assets due to the minimal inventory records maintained by PSA staff, and evidence that written procedures for disposition of assets were not followed.

AUDITOR COMMENTS:

The fiscal funds manager stated that \$150,000 was transferred from the operational checking account to an investment account managed by the Comptroller's Office Division of Accounting. We found that the transfer was made on February 23, 1993. The funds are recorded in the Trust Fund as a liability, in Fund 610, Business Area 163, account number 225100. The funds have been invested by the Comptroller's Office cash management unit. The documentation supporting this transfer is minimal.

WE RECOMMEND that the \$150,000 be transferred back into the PSA operational checking account for clients. Future investments of client funds should be attempted after planning and documenting the investment, and after determining the legal authority for transferring and investing the funds. The method for accounting for and distributing any earnings from the investment should also be documented in writing prior to any transfer.

During the confirmation of the authorized signatories for the operational checking account, we discovered that the Comptroller's Office Division of Accounting had previously requested a change in signatories for the operational checking account, removing the three PSA individuals and adding the County Comptroller as the sole signatory. The change was effective February 4, 2008 and was initiated in anticipation of the accounting system conversion from Quick Books to SAP.

We note that this change was made six months before the final conversion, and that this change was not communicated to Senior Services. During this time period, all checks written by PSA continued to be signed by PSA staff members who were effectively no longer authorized signatories. The bank holding the account continued to cash checks signed by PSA staff, even though these individuals were no longer authorized signatories.

We have notified the Division of Accounting, in a separate letter, recommending that future changes in signatory be made effective on or near the date on which responsibility for check signing actually transfers. In addition, we recommended that all changes in signatory should be communicated to all relevant parties in a timely manner, and that the bank holding the account be notified that only checks signed by an authorized signatory be cashed.

On July 18, 2008, accounting for PSA client funds was transferred from Quick Books, a personal computer based program, to SAP, Erie County's mainframe-based accounting system. The Erie County Comptroller Division of Accounting, accounts payable group also assumed responsibility for writing checks. Record keeping responsibility was retained by Senior Services fiscal staff. Senior Services also retained responsibility for distributing vendor payments on behalf of PSA clients. A review of communications related to the conversion from Quick Books to SAP revealed that the County's Division of Information and Support Services and the Comptroller's Office initiated the conversion in order to eliminate non-SAP accounting systems and to bring additional controls in place from such off-line systems.

RESULTS OF EXIT CONFERENCE:

An exit conference was held on, September 17, 2008 with the Commissioner of Senior Services and members of her staff, and a representative from the Division of Budget and Management. The contents of this report were discussed. Senior Services management was generally in agreement with our findings.

In accordance with the County's Audit Response System and Procedures, we request that the Commissioner of Senior Services prepare a written response to our office and the County Executive concerning the findings and recommendations. A draft of this written response should be submitted to the Division of Budget and Management for review and approval prior to its submission to the County Executive. The final written response should be submitted to our office and the County Executive by October 8, 2008.

We further request that the Commissioner of Senior Services forward copies of the response to the Erie County Legislature and the Erie County Fiscal Stability Authority by October 8, 2008.

ERIE COUNTY COMPTROLLER'S OFFICE

cc: Brenda Ward, Commissioner, Erie County Department of Senior Services
Hon. Christopher Collins, County Executive
Erie County Fiscal Stability Authority
Gregory Gach, Director of Budget and Management

APPENDIX A

Audit Methodology

The goals of this audit were to determine whether PSA clients' assets were adequately safeguarded against theft and unauthorized or improper use, and that reasonable value was obtained upon the sale of clients' assets.

To achieve these goals we assessed the internal controls in place over client finances in the PSA unit and the fiscal unit. Questionnaires were utilized to document discussions with staff related to the accounting system and procedures used to process and record financial transactions. Written procedures were reviewed for adequacy. Tests of controls were designed and executed, and then the strengths and weaknesses of the control system were identified. Tests were performed on samples of group payments, recurring bills, and guardianship files. Inquiries were made regarding the inventory records maintained for clients' assets and a sample of clients' fiscal files were inspected.

Tests of transactions were designed based on the assessment of internal controls and on the relative risk of cash receipt and cash disbursement transaction cycles. A four-column bank reconciliation was prepared for the week ended May 30, 2008, for the operational checking account, and the account balance at May 30, 2008, was confirmed with the bank. Cash receipts and cash deposits were inspected. Cancelled checks were inspected, and paid client bills were tested.

Transactions involving checks made payable to case managers were assessed at a high level of risk, since these transactions resulted in cash passing through the case managers hands. These items were tested for proper approval, purpose, and completeness. Documentation which supported these transactions was also inspected. These documents included receipts for cash delivered to clients, receipts for purchases on behalf of clients, and client signature cards.

The evidence, taken as a whole, was used to form an opinion based on our objectives.

APPENDIX B

Summary of Auditee Comments to Findings

Senior Services management was generally in agreement with our findings.