

INTERNAL AUDIT REPORT

A Third Follow-up Audit to the Internal Audit Report: PAGC Custody Internal Controls Audit issued August 5, 2010



Assignment 10281-C
March 21, 2016

Conclusion

As of January 2016, implementation of five recommendations remains in process, although the Social Services Agency has made improvements in implementing the recommendations made in the *Internal Audit Report Public Administrator/ Guardian/Conservator's Office Custody Internal Controls* issued August 5, 2010 (2010 Audit). The remaining actions are:

- Fully implementing its revised client physical inventory procedures (Recommendations 1.1 and 22.2),
- Providing fully loaded cost information to the Controller-Treasurer for analysis (Recommendations 6.1 and 6.2),
- Completing its review and transfer of funds held in a holding account to the appropriate recipient, for example, individuals, State or County. (Recommendation 10.2).

The original 2010 audit included 54 recommendations. Since this audit, two follow up audits were completed and revealed that 34 recommendations were implemented, five were determined to be no longer applicable, and 15 recommendations were partially done. The table below summarizes the status of the 15 remaining recommendations per the third follow-up audit.

Priority	Implemented	Partially Implemented	Will Not Be Implemented	Total
One ¹	1	1		2
Two ²	6	4	3	13
Total	7	5	3	15

Program Background

The Public Administrator/Guardian/Conservator is appointed by the Superior Court as conservator of a person and/or estate to serve as the surrogate decision maker for mentally ill or cognitively incapacitated individuals. Conservators are responsible for creating a care plan and strategy to ensure the security of the conservatee's property and maintain the conservatee in the safest and least restrictive environment possible. The conservator applies for income and benefits, pay bills, protects savings and advocates for the conservatee in legal matters. The Public Administrator/Guardian/Conservator also serves the public by managing the estates of persons who die without a will or without an appropriate person willing or able to act as executor.

Objective

The objective of this third follow-up audit is to determine the status of the 15 recommendations that were found to be partially implemented in the second follow up audit.

¹ Priority One recommendations address issues of noncompliance with Federal, State and local laws, regulations, ordinances and the County Charter. It includes those that would or could result in significant (\$250,000 or more) increases in revenue or decreases in expenditures, as well as significant weaknesses in internal controls. It also includes recommendations to make significant changes in Federal, state, or local policy through amendments to laws, regulations and policies.

² Priority Two recommendations would or should result in moderate (\$50,000 to \$250,000) increases in revenue or decreases in expenditures. It includes changes to County ordinances, policies, or procedures. Also included are revisions to departmental or program policies and procedures.

Scope

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

The scope included follow-up on recommendations identified as Priority One or Priority Two in the 2010 audit that had not been identified as fully implemented in the second follow-up audit. This third follow up audit, as well as the initial and second follow-up audits, excluded follow-up on the Other Findings because they are considered less significant and not subject to a formal follow-up. This audit was conducted from April 2015 through January 2016.

Methodology

A follow-up audit evaluates the progress made on recommendations. It included identifying whether the implementation is properly substantiated. During a follow-up audit, the IAD does not change the initial findings, recommendations, or priority levels assigned.

A draft copy of the report was discussed with the Social Services Agency, and its written response is attached. Contributing to the successful conclusion of this project was the assistance provided by the Agency's staff. It is appreciated.

Audit Background

The Institute of Internal Auditors' (IIA) professional standards and the Internal Audit Division's procedures, as approved by the Board of Supervisors, require follow-up on recommendations. Consequently, follow-up audits were included in the FY15 and FY 16 Audit Work plans. This audit was performed to meet these requirements.

Signature on File

Rebecca Haggerty 
Internal Audit Manager
March 21, 2016

Attachments: Appendix A, STATUS OF AUDIT RECOMMENDATIONS
Management's Response
Internal Audit Report: Public Administrator/ Guardian/Conservator's Office Custody Internal Controls
issued August 5, 2010

APPENDIX A STATUS OF AUDIT RECOMMENDATIONS

This report summarizes the status of audit recommendations not fully implemented after the second follow-up audit. It identifies those recommendations that are implemented, partially implemented, not implemented, no longer applicable, or will not be implemented.

Finding / Recommendation Number	Priority	Finding/Recommendation	Implementation Status	Comments
1		Other Restricted Assets of \$72.5M in the financial statement could not be verified.		
1.1	1	PAGC should develop a process to clean up the inventory balances in the case management system to ensure that only inventory items still held by PAGC have a balance, duplicate inventory items are eliminated, items under the PAGC's responsibility but are not reported in Inventory & Appraisal have a value for inclusion in the financial statement, and inventory is recorded in SAP at the net realizable value (fair market value less estimated costs such as mortgage for real property).	Partially Implemented	SSA has updated, but has not fully implemented, its inventory policy and procedures to resolve the recommendation.
1.2	1	PAGC should adjust the Other Restricted Assets balance in SAP to the proper amount. The Other Restricted Assets balance in SAP should be supported by a detailed inventory report. The report should be produced at year-end to capture inventory value at that date since inventory balances can only be obtained at a specific point in time.	Implemented	SSA has adjusted the account balance in SAP to agree with the inventory report as required by the recommendation.
4		Oversight is needed over PAGC's financial operations to ensure required financial activities are properly and timely processed.		
4.2	2	PAGC should perform a full review of the Accounting Unit functions and monitor regularly using management information reports. This includes prioritizing how staff resources should be allocated and formally developing a contingency plan to back up the accounting supervisor responsible for reviewing and verifying all court accountings should he retire or leave PAGC employment.	Implemented	SSA has performed a review of its financial operations and has implemented changes including a staffing plan and supervisory back-up.

Finding / Recommendation Number	Priority	Finding/Recommendation	Implementation Status	Comments
6		Investigation, basic, and extraordinary fees are not computed at full cost recovery and fee increases are not submitted to the Board for acceptance.		
6.1	2	PAGC should obtain assistance from the Controller-Treasurer Department to compute the fully loaded cost of services provided for each fee (storage and tax preparation fees).	Partially Implemented	Since the audit issuance in 2010, SSA has not submitted fully loaded costs of services information to the Controller-Treasurer Department for its review. It has initiated discussions with the Controller-Treasurer Department and intends to submit fully loaded costs for review in 2016. Since no analysis or confirmation of fully loaded costs has been performed as of January 31, 2016, this recommendation remains partially implemented.
6.2	2	A comparison of the actual cost to the recommended fees (storage and tax preparation) should be presented to the court when requesting fee increases.	Partially Implemented	SSA intends to provide a fee cost analysis to the Courts but has not yet done so. This status has not changed since the second follow-up audit.
6.3	2	New PAGC fees or fee increases approved by the court should be submitted to the Board for review and acceptance. However, increases to storage and tax preparation costs charged to the client should be submitted to the Board for approval as these are not included in the list of fees submitted to the court for approval. PAGC should submit the fees and cost charges to the Controller-Treasurer Department and the Office of Budget and Analysis for review prior to submitting to the Board.	Implemented	SSA now includes all fees and charges to the Board for review and acceptance.

Finding / Recommendation Number	Priority	Finding/Recommendation	Implementation Status	Comments
8		Although PAGC is aware of the benefits of interfacing Panoramic with SAP, other priorities have prevented PAGC from pursuing the interface during implementation.		
8.1	2	PAGC should identify the data and frequency to be automatically transferred to SAP.	Will Not Be Implemented	SSA has developed a workable alternative to transferring data between the two systems and is no longer considering an interface.
8.2	2	PAGC should continue to work with the Controller-Treasurer Department's ASAP team and Panoramic to develop a plan for the interface and establish a timeline for completion.	Will Not Be Implemented	Same as Recommendation 8.1 above.
9		Deferred and unpaid fees of approximately \$4.5M should be communicated to SSA management and the Board.		
9.1	2	PAGC should include deferred and unpaid fees of approximately \$4.5M in its annual report to communicate to SSA management and to the Board the extent of deferred and uncollected revenues.	Implemented	On May 19, 2015, the Board approved the write off of \$6 million in deferred and unpaid fees. (The amount increased by \$1.5 million since the initial recommendation amount of \$4.5 million.)
10		Deposits in temporary holding accounts totaling approximately \$252,500 should be recorded in the client's account or return to the payer on a timely basis.		
10.2	2	PAGC should review each balance in all holding accounts and either record the deposit to the client's account, return to payer, or transfer to the General Fund if appropriate.	Partially Implemented	SSA is conducting a thorough analysis of the amounts in the holding accounts including identifying the appropriate recipients. The analysis is projected to be completed in 2016.

Finding / Recommendation Number	Priority	Finding/Recommendation	Implementation Status	Comments
14		Review of cash and check deposits should be performed in a manner that would detect misappropriation of client funds.		
14.2	2	PAGC should revise the check log instructions to address how deputies and EAs should review the check log to ensure that cash and checks are posted to the client's account to prevent misappropriation of funds. The controls should address checks received in mail, checks and cash brought in from property search or client visit, and imprest cash for redeposit to the client's account.	Implemented	SSA has updated its check log procedures and posted it on an internal department website.
15		Final accountings required for the final distribution of client estates are not done timely.		
15.3	2	PAGC should ensure that the appropriate date and status are correctly entered in the case management system so that termination/decedent reports show only final accountings that need to be completed. This reduces time spent by staff to research cases without final date or status to determine whether a final accounting is needed. For accounts where a final accounting is not needed (i.e. it has been waived, etc.) or has been completed, a final status date should be entered to indicate that no final accounting is needed. The termination/decedent report should exclude person only accounts or others that do not need a final accounting.	Implemented	SSA updates dates and status in the case management system that now allows appropriate presentation on its reports.

Finding / Recommendation Number	Priority	Finding/Recommendation	Implementation Status	Comments
18		Bond fee computation is inefficient.		
18.1	2	PAGC should work with Panoramic to automate bond fee computation.	Will Not Be Implemented	SSA determined that the Panoramic system could not be used to compute bond fees.
22		Improvements are needed over the periodic physical inventory process to ensure proper safeguarding of client assets.		
22.2	2	The periodic physical inventory (for both warehouse and locked room) should be tracked in Panoramic so there is record of the inventory.	Partially Implemented	Although SSA revised its policies regarding updating its case management system after physical inventories are conducted, it has not fully put these policies into actual practice.
23		PAGC needs to complete its review and update of written policies and procedures.		
23.1	2	PAGC should complete its review and update of all written policies and procedures, through the Policies and Procedures Committee, to address the implementation of SAP, the implementation of the new case management system, and procedures where practice is different than written procedures.	Implemented	SSA updated relevant policies and procedures, trained its staff on the changes, and posted these updates onto its intranet site.

County of Santa Clara

Social Services Agency



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Date: March 17, 2016

To: Board of Supervisors

From: Robert Menicocci, Agency Director
James Ramoni, DAAS Director
Kristina Cunningham, Chief Deputy
Public Administrator/Guardian/Conservator

Subject: Agency Response to the Third Follow-Up Audit of the *Internal Audit Report Public Administrator/Guardian/Conservator's Office Custody Internal Controls* issued August 5, 2010

The Agency has reviewed the Third Follow-Up Audit of the *Internal Audit Report Public Internal Audit Report Public Administrator/Guardian/Conservator's Office Custody Internal Controls issued August 5, 2010*.

This memorandum serves as the Agency's response to the third follow-up audit conducted from April 2015 through January 2016.

In summary, of the remaining two (2) Priority One recommendations from the audit, one (1) has been implemented and one (1) has been partially implemented. With respect to the remaining thirteen (13) Priority Two recommendations, six (6) have been implemented, four (4) have been partially implemented, and three (3) will not be implemented.

We appreciate the time and effort the Finance Agency has provided in monitoring our program's improvements. The attached response addresses the remaining five (5) partially implemented recommendations.

It is anticipated that the remaining five (5) recommendations will be implemented when the follow-up audit is completed by the Controller-Treasurer's office scheduled during the 2016 calendar year.

Board of Supervisors: Mike Wasserman, Cindy Chavez, Dave Cortese, Ken Yeager, S. Joseph Simitian
County Executive: Jeffrey V. Smith

Finding 1. Other Restricted Assets of \$72.5M in the financial statement could not be verified.

1.1 PAGC should develop a process to clean up the inventory balances in the case management system to ensure that only inventory items still held by PAGC have a balance, duplicate inventory items are eliminated, items under the PAGC's responsibility but are not reported in Inventory & Appraisal have a value for inclusion in the financial statement, and inventory is recorded in SAP at the net realizable value (fair market value less estimated costs such as mortgage for real property).

Priority 1

Implementation Status Partially Implemented

Comments SSA has updated, but has not fully implemented, its inventory policy and procedures to resolve the recommendation.

Agency Response  PAGC agrees with the finding of partially implemented as staff completed training in 12/2015 and began inventory verification in January 2016. Please note the following items have been completed:

- All staff members have been trained on inventory procedures.
- The procedure and best practices have been operationalized in our department and the supervisors are responsible for overseeing the inventory verification process.
- It was recently discovered that we are able to run a monthly case transfer report from Panoramic. This report will list all cases in the office that have been transferred and management will review to ensure a complete inventory is conducted each time a case is transferred to a new deputy, if more than 4 months has elapsed.
- PAGC continues to review and revise the procedures as needed.

The Controller-Treasurer's office will return to observe an actual inventory under the revised process.

1.2 PAGC should adjust the Other Restricted Assets balance in SAP to the proper amount. The Other Restricted Assets balance in SAP should be supported by a detailed inventory report. The report should be produced at year-end to capture inventory value at that date since inventory balances can only be obtained at a specific point in time.

Priority 1

Implementation Status Implemented

Finding 4. Oversight is needed over PAGC’s financial operations to ensure required financial activities are properly and timely processed.

4.2 PAGC should perform a full review of the Accounting Unit functions and monitor regularly using management information reports. This includes prioritizing how staff resources should be allocated and formally developing a contingency plan to back up the accounting supervisor responsible for reviewing and verifying all court accountings should he retire or leave PAGC employment.

Priority 2
Implementation Status Implemented

Finding 6. Investigation, basic, and extraordinary fees are not computed at full cost recovery and fee increases are not submitted to the Board for acceptance.

6.1 PAGC should obtain assistance from the Controller-Treasurer Department to compute the fully loaded cost of services provided for each fee (storage and tax preparation fees).

Priority 2
Implementation Status Partially Implemented

Comments Since the audit issuance in 2010, SSA has not submitted fully loaded costs of services information to the Controller-Treasurer Department for its review. It has initiated discussions with the Controller-Treasurer Department and intends to submit fully loaded costs for review in 2016. Since no analysis or confirmation of fully loaded costs has been performed as of January 31, 2016, this recommendation remains partially implemented.

Agency Response PAGC agrees that this finding is partially implemented. The storage and tax preparation fees will be submitted to the Board for approval, when a fee increase is requested. PAGC accounting agrees to perform a preliminary review to gather data of the fully loaded costs of the storage and tax preparation services. These initial findings will be presented to the Controller-Treasurer office to confirm the proposed methodology and move forward to a fully loaded cost assessment by end of year 2016.

6.2 A comparison of the actual cost to the recommended fees (storage and tax preparation) should be presented to the court when requesting fee increases.

Priority 2
Implementation Status Partially Implemented

Comments	SSA intends to provide a fee cost analysis to the Courts but has not yet done so. This status has not changed since the second follow-up audit.
Agency Response	PAGC agrees that this finding is partially implemented. While the PAGC does not have plans to request an increase in the Court sanctioned fees (investigation, basic, and extraordinary fees) and understands the Court does not approve fees based on actual cost alone, we acknowledge that computing the fully loaded cost of these services will be pertinent to a discussion with the Court regarding fee increases in the future. As noted in the original audit, PAGC is partially supported by the General Fund and comparing the full cost of services with fee revenues is useful to the Board's budget decision-making process. PAGC accounting will work with the Controller-Treasurer's office to determine the fully loaded cost of investigation, basic, and extraordinary fees and present its findings by end of year 2016.
6.3	New PAGC fees or fee increases approved by the court should be submitted to the Board for review and acceptance. However, increases to storage and tax preparation costs charged to the client should be submitted to the Board for approval as these are not included in the list of fees submitted to the court for approval. PAGC should submit the fees and cost charges to the Controller-Treasurer Department and the Office of Budget and Analysis for review prior to submitting to the Board.
Priority	2
Implementation Status	Implemented

Finding 8. Although PAGC is aware of the benefits of interfacing Panoramic with SAP, other priorities have prevented PAGC from pursuing the interface during implementation.	
8.1	PAGC should identify the data and frequency to be automatically transferred to SAP.
Priority	2
Implementation Status	Will not be implemented
8.2	PAGC should continue to work with the Controller-Treasurer Department's ASAP team and Panoramic to develop a plan for the interface and establish a timeline for completion.
Priority	2
Implementation Status	Will not be implemented

Finding 9. Deferred and unpaid fees of approximately \$4.5M should be communicated to SSA management and the Board.

9.1 PAGC should include deferred and unpaid fees of approximately \$4.5M in its annual report to communicate to SSA management and to the Board the extent of deferred and uncollected revenues.

Priority 2

Implementation Status Implemented

Finding 10. Deposits in temporary holding accounts totaling approximately \$252,500 should be recorded in the client's account or return to the payor on a timely basis.

10.2 PAGC should review each balance in all holding accounts and either record the deposit to the client's account, return to payer, or transfer to the General Fund if appropriate.

Priority 2

Implementation Status Partially Implemented

Comments SSA is conducting a thorough analysis of the amounts in the holding accounts including identifying the appropriate recipients. The analysis is projected to be completed in 2016.

Agency Response PAGC agrees that this finding is partially implemented. PAGC accounting and management analyzed 12 holding accounts, recognizing 6 as appropriate and archiving or closing 4. The two that remain need further forensic accounting, which PAGC accounting continues to conduct. The results of this investigation will be presented by end of year 2016.

Finding 14. Review of cash and check deposits should be performed in a manner that would detect misappropriation of client funds.

14.2 PAGC should revise the check log instructions to address how deputies and EAs should review the check log to ensure that cash and checks are posted to the client's account to prevent misappropriation of funds. The controls should address checks received in mail, checks and cash brought in from property search or client visit, and imprest cash for redeposit to the client's account.

Priority 2

Implementation Status Implemented

Finding 15. Final accountings required for the final distribution of client estates are not done timely.

15.3 PAGC should ensure that the appropriate date and status are correctly entered in the case management system so that termination/decedent reports show only final accountings that need to be completed. This reduces time spent by staff to research cases without final date or status to determine whether a final accounting is needed. For accounts where a final accounting is not needed (i.e. it has been waived, etc) or has been completed, a final status date should be entered to indicate that no final accounting is needed. The termination/decedent report should exclude person only accounts or others that do not need a final accounting.

Priority	2
Implementation Status	Implemented

Finding 18. Bond fee computation is inefficient

18.1 PAGC should work with Panoramic to automate bond fee computation.

Priority	2
Implementation Status	Will not be implemented

Finding 22. Improvements are needed over the periodic physical inventory process to ensure proper safeguarding of client assets.

22.2 The periodic physical inventory (for both warehouse and locked room) should be tracked in Panoramic so there is record of the inventory.

Priority	2
Implementation Status	Partially Implemented
Comments	Although SSA revised its policies regarding updating its case management system after physical inventories are conducted, it has not fully put these policies into actual practice.
Agency Response	Refer to Finding 1.1: The Controller-Treasurer's office will return to observe actual inventories under the revised process. Inventories are tracked in Panoramic to ensure documentation of the inventory.

Finding 23. PAGC needs to complete its review and update of written policies and procedures.

23.1 PAGC should complete its review and update of all written policies and procedures, through the Policies and Procedures Committee, to address the implementation of SAP, the implementation of the new case management system, and procedures where practice is different than written procedures.

Priority	2
Implementation Status	Implemented



Bill Perrone, CIA
Internal Audit Manager

August 5, 2010

Assignment 10200

To: Distribution List

Subject: Public Administrator/Guardian/Conservator's Office (PAGC) Custody Internal Controls Audit Report

We have completed the PAGC Custody Internal Controls Audit Report. The results of the Custody Audit are in two reports. The Custody Financial Audit Report was previously issued on June 30, 2009, in which we provided no opinion on \$72.5M of client assets. This report addresses the internal controls review part of the audit. We conducted the internal controls audit from August 2009 through May 2010 covering the current period.

We thank the personnel at PAGC, SSA, and County Counsel's Office for their full cooperation throughout the entire audit process in completing a challenging audit. Due to circumstances beyond Internal Audit and PAGC's control, the Custody Audit (both the Financial Report and this Internal Controls Report) took much longer than normal to complete, as explained in the conclusion section of the Executive Summary.

Respectfully submitted,

Signature on file

Bill Perrone, CIA
Internal Audit Manager

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COUNTY OF SANTA CLARA

CONTROLLER-TREASURER DEPARTMENT – INTERNAL AUDIT DIVISION

INTERNAL AUDIT REPORT

Public Administrator/Guardian/
Conservator's Office Custody Internal
Controls



Assignment 10200
August 5, 2010

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Executive Summary

Conclusion It is Internal Audit's opinion that there are many internal control concerns that need to be addressed at the Public Administrator/Guardian/Conservator's Office (PAGC). These internal control issues are an accumulation of practices that have evolved over the years, prior to the current management. It is clear that PAGC is committed to serving approximately 1,500 of the most vulnerable citizens in the County who are unable to make the necessary decisions to manage their health and finances. PAGC is generally fulfilling its fiduciary duties of managing client finances by collecting the client's income, paying their bills, taking possession of the assets upon being appointed conservator, protecting client assets, and filing the required court accountings timely. However, significant improvements are needed over financial accountability as \$72.5M in Other Restricted Assets in the financial statement could not be verified, residual interest payment to the General Fund is consistently late (totaling \$451,263.41), fees are not computed at full cost recovery, and fee increases are not submitted to the Board for acceptance. In addition, there are findings related to oversight of financial operations, client inventories, fees, the case management system (Panoramic), and policies and procedures.

PAGC is in agreement with the facts of the findings contained in this report and has committed to take corrective actions.

The long timeline, approximately two years, to conduct the Custody Audit (both the Financial Report and Internal Controls Report) was due to other Internal Audit projects, implementation of a new case management system, and changes in management. Internal Audit had to suspend this audit twice because of higher priorities. In the middle of the audit test work, PAGC implemented a new case management system. Additionally, the new Public Administrator/Guardian/Conservator and Director of the Department of Adult and Aging were hired.

Audit Objective The audit objective was to determine the adequacy of internal controls over assets for which PAGC is responsible, processes with a financial impact, and compliance with applicable laws, regulations, policies, and procedures.

Audit Scope The scope of the audit included testing the following areas for the current period:

- Assets in General Fund (cost centers 4700, 4710, 4715 prior to January 1, 2009 and cost centers 4760, 4761, 4762 after January 1, 2009) and Trust Fund 361
- Financial reporting of assets for which the PAGC is responsible in SAP
- General Assistance funds provided to the PAGC clients
- Sale of real property
- Safeguarding of client assets (real properties, financial securities, and personal properties)
- Compliance with Probate Codes regarding filings of court accountings and Inventory & Appraisal reports
- Computation and collection of PAGC fees
- Deposit of client funds

- Payment of client bills
- Closing terminated and decedent cases
- Management of client financial securities
- Compliance with PAGC certifications

Areas not tested due to insufficient audit resources:

- Use of Special Needs Fund (General Fund loan to client)
- Selection of real estate, property management rental, and other vendors
- Process of spending-down client funds to qualify for benefits
- Process of applying for client benefits
- Escheating unclaimed client assets

Audit

Background

Santa Clara County Charter Section 602(b) requires an audit upon the vacancy in any office charged with the responsibility for County assets. Rob Cecil left on February 2008 and Don Moody became the Public Administrator/Guardian/Conservator on September 2008. The results of the Custody Audit are in two reports. The Custody Financial Audit Report was previously issued on June 30, 2009 in which we provided no opinion on \$72.5M of client assets. This report addresses the internal controls review part of the audit.

We conducted our audit in accordance with the International Professional Practices Framework of Internal Auditing established by the Institute of Internal Auditors.

Signature on file

Bill Perrone, CIA
Internal Audit Manager

Findings and Recommendations

Finding 1 Other Restricted Assets of \$72.5M in the financial statement could not be verified.

In the Custody Financial Audit Report issued on June 30, 2009, we were unable to substantiate approximately \$72.5M of Other Restricted Assets recorded in the County's financial statement and did not provide an opinion on these assets. Other Restricted Assets consist of real properties, financial securities, and personal properties belonging to the clients. PAGC refers to these assets as inventory.

All client assets under PAGC's fiduciary responsibility should be properly recorded in the County's financial statement, with appropriate supporting details. PAGC provided a listing of inventory balances, but it did not agree with the \$72.5M in the County's financial statement.

The reasons inventory balances as reported in the financial statement could not be verified include:

- Items that are no longer held by PAGC (i.e. those with final status codes) were not zeroed out and still have an inventory value causing an overstatement of the reported balance.
- There are duplicate entries for assets in both the conservatorship and trust accounts causing an overstatement of the reported balance.
- Items that are under PAGC's responsibility (i.e. those in trusts) are not included. These items are not assigned an inventory value because they are not reported to the court. Only items that are included in the Inventory & Appraisal report submitted to the court are given an inventory value. This results in an understatement of the reported balance.
- The assets in the financial statement are recorded at the fair market value at the time of conservatorship appointment, rather than at the current net realizable value as required under accrual accounting for a private-purpose trust fund (Trust Fund 361).
- There is no detail inventory report supporting the balance reported in the financial statement. Inventory balances can be obtained only at a specified point in time and cannot be retroactively determined. No report could be produced to support the June 30, 2008 balance.

Other Restricted Assets is the largest asset recorded in the PAGC Trust Fund and should be accurately reported. As a result of the audit, PAGC developed inventory reports with the total inventory values (appraised value at time of conservatorship appointment). The reports indicate total inventory of approximately \$35M in May 2010, which is approximately half of the \$72.5M reported balance in the financial statement. The inventory value errors above do not result in inaccurate court accountings. However, these errors cause inefficiencies in the court accounting preparation process. More time is required to prepare the accountings as

each inventory transaction (which could be several hundred) has to be reviewed to ensure that only items still held by the PAGC are reported to the court. Additionally, the current fair market value has to be obtained since it is not recorded in the case management system.

Recommendation 1.1 PAGC should develop a process to clean up the inventory balances in the case management system to ensure that only inventory items still held by PAGC have a balance, duplicate inventory items are eliminated, items under the PAGC's responsibility but are not reported in Inventory & Appraisal have a value for inclusion in the financial statement, and inventory is recorded in SAP at the net realizable value (fair market value less estimated costs such as mortgage for real property). [Priority 1]

Recommendation 1.2 PAGC should adjust the Other Restricted Assets balance in SAP to the proper amount. The Other Restricted Assets balance in SAP should be supported by a detail inventory report. The report should be produced at year-end to capture inventory value on that date since inventory balances can only be obtained at a specific point in time. [Priority 1]

Recommendation 1.3 The market values for financial securities and real properties should be updated annually and recorded in Panoramic. [Priority 1]

Finding 2 **PAGC makes late residual interest income payments (\$451,263.41) to the General Fund.**

The transfer of excess interest income owed to the General Fund is consistently done late (from three months to more than one year). Additionally, it is difficult to identify the interest transfers to the General Fund in SAP as the transactions are not always properly recorded (i.e. incorrect document type, incorrect time frame description, several quarterly payments lumped in one transaction, etc.).

Probate Code 7642 states that interest in excess of what the client's estate would have earned if it was individually deposited is to be placed in the General Fund. The transfer of excess interest income to the General Fund should be done in a timely manner.

PAGC does not have a process in place to ensure the timely computation and transfer of quarterly excess interest income to the General Fund. Also, staff has not been properly trained to record the entries in SAP.

Timely payment to the General Fund is critical to the County's management of cash flow. A breakdown of \$451,263.41 in late or nonpayment of interest income to the General Fund is as follows:

- \$103,488.45 for 4th quarter FY08 was paid in FY10 as a result of the Custody Financial Audit Report. This payment was lumped with the 2nd and 3rd quarters FY09 and had an incorrect timeframe description.

- \$231,636.94 for 2nd and 3rd quarters FY09 was paid in FY10. This payment was lumped with 4th quarter FY08 and had an incorrect timeframe description.
- \$58,338.34 for 4th quarter FY09 was paid in June 2010.
- \$57,799.68 for 2nd quarter FY10 was paid in June 2010.

Recommendation 2.1 PAGC should establish a process to ensure that residual interest income is computed and transferred to the General Fund the same month the quarterly interest allocation is received from the Controller-Treasurer Department. The process could include monthly review of budgeted and actual revenue for cost center 4760 in Budget Unit 501. Timely payment to the General Fund is important for the County to properly manage its cash flow. [Priority 1]

Recommendation 2.2 PAGC should properly train staff to correctly identify the time frame (the quarter and fiscal year) of the residual interest payments to the General Fund in SAP and record one transaction for each quarter for ease of identification and monitoring. [Priority 1]

Finding 3

There is a lack of monitoring over approximately 38% of the Inventory and Appraisal reports that are not submitted to the court by the timeline specified in the Probate Code.

Approximately 62% (85 out of 137) of the Inventory and Appraisal reports tested from January to September 2009 were filed by the timeline specified in the Probate Code. The remaining 38% were filed an average of nine months after the due date. These filings were not tracked and periodically evaluated to identify the length of time taken to file, the percentage change over time, and the reason for the delay. PAGC states that the reasons for delays include unusual circumstances such as the three-month notice to obtain a Probate Referee appraisal, clean and fumigate a house, or litigation by other parties to remove PAGC as conservator.

Probate Code 2610 requires the conservator to file an inventory and appraisal of the estate with the court within 90 days of conservatorship appointment or within such further time as the court for reasonable cause upon *ex parte* petition of the guardian or conservator may allow. Probate Code 8800 requires the administrator of the decedent estate to file an inventory and appraisal within four months after the letter of administration is issued.

The failure to file the inventory and appraisal within the required timeline specified by the Probate Code can result in the revocation of the letters of conservatorship and PAGC can be held liable for damage or loss to the estate. PAGC has written policies and procedures that specify the timelines for completion of each step by the required staff (deputy, estate

administrator, legal secretary, supervisor, etc.) including the distribution of various reports in advance of the due date.

Recommendation 3.1 PAGC should track and evaluate all Inventory and Appraisal reports that are not submitted to the court by the timeline specified in the Probate Code. The evaluation should cover, at a minimum, the length of time to file, the trend of late filings over time, and the reason for the late filing. This tracking report should be reviewed at least quarterly by the Estate Administration Manager and at least annually by the Public Administrator/Guardian/Conservator. [Priority 1]

Finding 4 **Oversight is needed over PAGC’s financial operations to ensure required financial activities are properly and timely processed.**

Greater oversight of PAGC’s fiscal activities is needed to address the following issues:

- No regular review of transactions and balances in SAP to ensure that PAGC financial activities are properly recorded and in a timely manner. The lack of frequent monitoring results in untimely recording of monthly revenue to the General Fund (for FY10, as of May 2010, monthly revenues have only been recorded four times), no required year-end accruals and reversals of residual interest for FY08 and FY 09, consistently late quarterly residual interest payments to the General Fund (Finding 2), balances recorded in the PAGC Trust Fund but do not belong to PAGC (e.g. A/R-Recorder’s Returned Check), certain assets not recorded (such as prepaid expenses), \$72.5M in Other Restricted Assets not properly supported (Finding 1).
- Important reconciliations are not performed, such as the reconciliation between the balances in the case management system and SAP (particularly cash). Additionally, bank reconciliations required by the Controller-Treasurer Department have not been submitted since February 2008. Timely reconciliation is an important control activity to identify inappropriate transactions.
- There is no formal contingency plan in place to back-up the accounting supervisor responsible for reviewing and verifying all court accountings. Staff can prepare simple court accountings but cannot perform complicated accountings, conduct the necessary court accounting reviews, or work with County Counsel’s Office to resolve issues that arise. Court accounting is a critical function.
- Fully loaded cost of providing services is not computed and submitted to the courts when requesting fee increases (Finding 6).
- Fee increases are not submitted to the Board for review and acceptance (Finding 6).
- There is untimely clearing of deposit holding accounts (Finding 10).
- PAGC does not respond to the Controller-Treasurer Department’s numerous requests and repeated follow-ups for important information. Examples include repeated requests for bank reconciliations, information regarding fees and charges for the required annual

In addition to the recurring errors above, more than 50% of the February through April 2010 payments do not have invoice numbers because the vendor submitted statements rather than invoices. The most common payments without an invoice are those for prescriptions, personal need money to the client, final distribution, income tax payments, etc. For payments with invoices, the invoice number is not entered in the designated field but is entered in the description.

We noted that the date of service (DOS) is not entered in the designated field for most payments from February through April 2010. The DOS is either blank or entered in the description field. There are certain payments, however, where there is no DOS (such as personal need money to client, final distribution, etc).

All payments should be reviewed to ensure that the appropriate amount is paid and the correct invoice and date of service is entered prior to issuance. Payment errors identified should be corrected to prevent recurring errors. All payments should be made from invoices. Invoice number and date of service information should be entered in the designated field to facilitate electronic review of payments (i.e. such as reviewing for duplicate payments). For payments where an invoice is not issued, a procedure should be established to create a number to serve as an invoice number.

A staff is assigned to perform daily post payment review of all checks issued because of the volume and frequency of payment errors. The frequency of recurring errors is due to the lack of adequate training and pre-payment monitoring to ensure that bills are properly paid and that the correct information is entered (i.e. correct invoice number and date of service). For example, some duplicate payments occur because payments are made prior to billing Medicare/Medical/Insurance or when a check is issued through both the Payment Request and Accounts Payable processes. The lack of invoice number occurs because at least half of the vendors do not send invoices (they send statements or other supporting documents). Checks have the incorrect addresses because the address change is not updated in the vendor master file.

If payments are reviewed to identify errors prior to issuance, post payment reviews would not be necessary and resources could be allocated to other tasks. Additional cost and time is incurred to correct all the recurring payment errors by cancelling and reissuing checks. Also, if invoice and date of service information are correctly entered and are in the designated fields, payment monitoring can be performed by electronically matching key fields to identify duplicate payments.

Recommendation 5.1 PAGC should address the recurring payment errors by training staff and reviewing payments prior to issuance. This will reduce or eliminate post payment reviews, cancellations, and reissuances of checks. [Priority 2]

Recommendation 5.2In instances where an invoice cannot be issued (e.g. prescription) or invoice is not required (e.g. personal need money, final distribution, income tax payments) PAGC should establish an invoicing system and assign an invoice number. [Priority 2]

Recommendation 5.3PAGC should ensure that the invoice number and date of service are entered in the designated field so that duplicate payment reviews can be performed electronically by matching the invoice number, date of service, vendor, and amount. [Priority 2]

Recommendation 5.4PAGC should submit to the Internal Audit Division a monthly Accounts Payable and Payment Request file beginning October 31, 2010. Internal Audit will use Audit Command Language (ACL) to produce a list of possible duplicate payments for PAGC to review and research. [Priority 2]

Finding 6 **Investigation, basic, and extraordinary fees are not computed at full cost recovery and fee increases are not submitted to the Board for acceptance.**

PAGC does not compute the fully loaded cost of providing services for the investigation, basic, and extraordinary fees. These fees are based on surveys of other counties and private fiduciaries. They are presented to the court for approval but do not include a comparison of the actual cost to the requested fee. Additionally, increases to these court approved fees are not submitted to the Board for review and acceptance.

To determine the appropriate fee to set, the court should be presented with the actual cost of providing the services as well as the recommended fee. Per Probate Code 2942, compensation for services will be in the amount the court determines just and reasonable. In its determination of what constitutes just and reasonable, the court takes into consideration, among other things, the actual cost of providing the services. Although the fee increases are approved by the court, they should also be submitted to the Board for review and acceptance. County policy requires the submission of fees to the Controller-Treasurer Department and the Office of Budget and Analysis for review prior to submitting to the Board.

PAGC does not have the required resources to compute the fully loaded cost of its fees and was not aware that fees increases approved by the court also need to be submitted to the Board.

Although the court may not approve the fees based on actual costs, it is important that a comparison of the actual cost of providing services and the recommended fee be presented to the court in order for it to make an informed decision when approving fees. It is also important that the Board be made aware of the fully loaded cost of providing services and the fees recommended to the court for approval, including an explanation

of any difference between the two. As PAGC is partially supported by the General Fund, because not all costs are recovered through fees, the Board needs to make informed decisions regarding the allocation of County resources based on information regarding cost and revenue collection. Since the actual costs have not been computed, Internal Audit was unable to quantify the financial impact.

Recommendation 6.1 PAGC should obtain assistance from the Controller-Treasurer Department to compute the fully loaded cost of services provided for each fee. [Priority 2].

Recommendation 6.2 A comparison of the actual cost to the recommended fee should be presented to the court when requesting fee increases. [Priority 2]

Recommendation 6.3 New PAGC fees or fee increases approved by the court should be submitted to the Board for review and acceptance. However, increases to storage and tax preparation costs charged to the client should be submitted to the Board for approval as these are not included in the list of fees submitted to the court for approval. PAGC should submit the fees and cost charges to the Controller-Treasurer Department and the Office of Budget and Analysis for review prior to submitting to the Board. [Priority 2]

Finding 7 **Data integrity verification is needed to ensure the accuracy and completeness of data converted to the new case management system (Panoramic).**

In November 2009, a new case management system (Panoramic) was implemented. While the data integrity verification was performed as part of the implementation, Internal Audit's test work identified aberrations in the data. For example, Inventory and Appraisal reports have missing dates and certain dates were brought over to the incorrect field. Also, for the accountings, the accounting completed date and the date accountings were sent to County Counsel are missing. All data should be accurate and complete so that it can be relied upon and use as intended.

Due to budgetary constraints, PAGC did not have the resources needed to perform full data integrity verification at implementation. The objective was to bring up a new system and verify critical data. Panoramic is logging and tracking all outstanding issues that need resolution.

The case management system is the central repository where all client data resides and thus needs to have accurate, complete, and reliable data.

Recommendation 7.1 PAGC should complete the data integrity verification process to ensure that all data converted was accurate and complete. [Priority 2]

Finding 8 **Although PAGC is aware of the benefits of interfacing Panoramic with SAP, other priorities have prevented PAGC from pursuing the interface during implementation.**

The interface between SAP and Panoramic would substantially reduce the number of manual journal entries and reconciliations between the two systems by automating the transfer of balances. These entries include monthly recording of revenue in the General Fund for eight general ledger accounts, daily changes to PAGC liability account, quarterly residual interest payments to the General Fund, periodic update of asset balances in the Trust Fund, etc.

While PAGC is aware of the benefits of interfacing SAP and Panoramic to reduce staff time in performing recurring tasks as well as reducing the possibility of data entry errors, the priority was to complete the Panoramic implementation that began in November 2009.

Automating the transferring of balances from the case management system to SAP would eliminate the manual posting of journal entries and the reconciliations of balances between the two systems (with the exception of cash balance since cash deposited in the bank is automatically recorded in SAP).

Recommendation 8.1 PAGC should identify the data and frequency to be automatically transferred to SAP. [Priority 2]

Recommendation 8.2 PAGC should continue to work with the Controller-Treasurer Department's ASAP team and Panoramic to develop a plan for the interface and establish a timeline for completion. [Priority 2]

Finding 9 **Deferred and unpaid fees of approximately \$4.5M should be communicated to SSA management and the Board.**

Deferred and unpaid fees are not communicated to the Social Services Agency (SSA) management and to the Board. PAGC defers the collection of fees for clients who are unable to pay. These fees are considered unpaid when the conservatorship is terminated or the client is deceased but the outstanding fees remain due to insufficient funds in the client's estate. All unpaid fees remain in the case management system should the estate receive money in the future.

Fees that are deferred or become uncollectible should be reported to SSA management and to the Board so that they are informed of PAGC's revenue shortfalls. PAGC was unable to generate a report showing the total deferred and unpaid fees in the prior case management system.

As reported by PAGC, the cumulative total of deferred and unpaid fees is approximately \$4.5M.

Recommendation 9.1 PAGC should include deferred and unpaid fees of approximately \$4.5M in its annual report to communicate to SSA management and to the Board the extent of deferred and uncollected revenues. [Priority 2]

Finding 10 **Deposits in temporary holding accounts totaling approximately \$252,500 should be recorded in the client's account or return to the payor on a timely basis.**

Deposits of client funds recorded in temporary holding accounts, in the case management system, are not cleared in a timely manner. The following holding accounts totaling approximately \$252,500 have balances that need to be cleared:

- Approximately \$145,000 from 1994 and prior remain in the State Department of Developmental Services holding account. Of the \$145,000, approximately \$27,000 is interest earned.
- Approximately \$98,000 from 2007 and 2008 remain in the ACH holding account. This holding account grew as high as \$800,000 in 2005.
- Approximately \$9,500 in cash in the Coroner account was received by the Medical Examiner-Coroner's Office. The last transfer of cash out of this account was to the Controller-Treasurer Department back in Feb 2008.

Deposits recorded in a holding account should be cleared timely as the purpose of the holding account is to temporarily record deposits that need further research but should be either moved to a client's account or return to the payor.

There is no management oversight of this fiscal function and no written procedures for the review of non-client accounts, including the assignment of staff responsible for the review.

The deposits in the holding accounts totaling approximately \$252,500 should be researched and either recorded in the client's account so that they have available funds for their support and care, return to the payor, or transferred to the General Fund if appropriate. The majority of the deposits in the ACH holding account of approximately \$98,000 came from the County and PAGC indicates that these receipts may be taken as revenue to the General Fund.

Recommendation 10.1 PAGC should establish written policies and procedures to address the frequency of reviewing deposits in holding accounts, the required actions to be taken, and the assignment of staff to clear the holding accounts. Additionally, the Trust and Fiduciary Accounting Manager should ensure that these accounts are cleared on a timely basis. [Priority 2]

Recommendation 10.2 PAGC should review each balance in all holding accounts and either record the deposit to the client's account, return to payor, or transfer to the General Fund if appropriate. [Priority 2]

Finding 11

Approximately \$180,000 of monthly fees were not charged due to PAGC's policy of implementing new fees.

The monthly fee increase approved by the court in July 2009 was charged to new conservatorship appointments starting November 2009 rather than to all existing conservatorships at the date of court approval. PAGC is charging clients with conservatorship appointments prior to November 2009 the previous monthly rate of \$104.16, approved by the court in 2003, instead of the new rate of \$125. Additionally, there are 21 clients still charged the monthly rate of \$83.33 (from 1993). Although the new fees were approved by the court in July 2009, it was not until November 2009 that the new rates were reflected on the letters of conservatorship for new appointments or reappointments.

Other than fees authorized by the Probate Code, PAGC cannot collect fees without court approval. In July 2009, the court approved PAGC's request for fee increases, including the monthly fee. The County Counsel Office's written confirmation of the new fees to the judge stated that it is the County's intention to implement the new fees effective July 2009. The court approved the new fees as they recognized the increase in cost of providing services to all existing clients and did not specify that the new fees can be collected only for new conservatorships appointed after July 2009. Thus, we believe that the new fees should have been implemented starting August 2009 (to avoid mid-month proration for July) for all existing conservatorships. Additionally, County Counsel's Office advised PAGC that the new fees can be charged beginning July 2009 to all existing clients.

PAGC's policy and practice is to only charge new monthly fees for new conservatorships, reappointments, or when a new accounting is approved (which could take up to two years) after July 2009. The Board was not notified of this decision and financial impact of not collecting the new monthly fee for all existing clients.

Conservatorships granted from November 2009 and on were charged the new monthly rate; all existing conservatorships at July 2009 were charged the old monthly rate. The total under-collection (for clients with ability to pay) and under-billing (of fees that are deferred) is estimated to be \$180,000. This amount is based on approximately 1,000 Probate and LPS clients as of October 2009, the nine months from August 2009 (since starting July would require mid-month proration) to our testing in April 2010, and the \$20 increase in the monthly fee. The under-collected amount between August 2009 and April 2010 was approximately \$30,000 (this excluded new fees charged for conservatorships appointed from November 2009). The under-billing of deferred monthly fees is approximately \$150,000 (\$180,000 total less approximately \$30,000 under collected).

For approved accountings, PAGC does not have the authority to re-open the accountings and retroactively collect the new monthly fee. For accountings that have not been approved by the court, PAGC believes it is not cost effective to retroactively obtain court approval to collect the new monthly fee back to August 2009.

Recommendation 11.1 PAGC should ensure that all accountings where the reporting period includes August 2009 and after reflect the new monthly fee of \$125. [Priority 2]

Recommendation 11.2 PAGC should revise the request for authorization to collect basic fees (investigation fee and monthly fee), in the letters of conservatorship (for both Probate and LPS), to include language that would allow PAGC to collect new fees immediately upon court approval for all existing conservatorships. [Priority 2]

Recommendation 11.3 PAGC should establish written policies and procedures to address how and when fees increases will be implemented so that approved fees are collected or billed on the effective date approved by the court or the beginning of the next month to avoid pro rating. Any decision (along with the financial impact) to not collect or bill new fees should be submitted to the Board for review and acceptance. [Priority 2]

Recommendation 11.4 PAGC should begin collecting and billing the new monthly fee of \$125 on all existing conservatorships. [Priority 2]

Finding 12 **PACG should work with a financial advisor to establish guidelines in reviewing client financial securities (estimated \$6.8M).**

PAGC performs certain reviews of client financial securities but would benefit by working with a professional financial advisor to learn about the industry and establish written guidelines for all estate administrators to follow. As of June 2010, there are 12 clients with financial securities totaling more than \$100,000, representing approximately \$6M (90%) of the \$6.8M total appraised value at the time of conservatorship appointment.

As the conservator of the estate charged with the responsibility to manage client assets, it is PAGC's fiduciary responsibility to review financial securities.

Without written established guidelines to following when reviewing financial securities, the review may not be consistently performed by all estate administrators. We are unable to determine the current market value for these financial securities because the data is not available in the case management system. To obtain the current market value, the financial securities statement for each client and each account would have to be reviewed. The market value of the financial securities for each client

is calculated annually for the bond fee computation but is not retained in the case management system.

Recommendation 12.1PAGC should work with a professional financial advisor to learn about the industry and establish written guidelines and thresholds for all estate administrators to follow when reviewing financial securities. [Priority 2]

Recommendation 12.2PAGC should go through the appropriate procurement process to select a professional financial advisor. [Priority 2]

Finding 13 **Recurring checks received in the mail should be set up as ACH deposits.**

There are many checks received through the mail, on behalf of the clients, that could be set up as ACH deposits. PAGC deposits monies received for the clients as part of its fiduciary responsibilities. These receipts are received through ACH deposit, through the mail, or brought in as part of the asset search process.

The most efficient method of depositing client funds should be used to take advantage of the County's new banking system and the implementation of the new case management system. Setting up checks received in the mail as ACH deposit has not been a priority for PAGC due to the implementation of the new case management system in November 2009.

Client funds received as ACH deposits reduces staff time in opening and sorting mail, preparing and reviewing the check log, depositing the checks, and manually posting each receipt to the client's account. In addition, ACH deposits reduce the risk of misappropriation of assets as the client funds are deposited directly to the County's bank. PAGC receives from five to 67 checks per day through the mail, with the majority of the checks received on the first day of each month. The checks received on a regular basis include US Treasury, Bank of America, State of California, City of San Jose, title companies, financial institutions, insurance companies, rental management property companies, pension plans, etc.

Recommendation 13.1PAGC should review all recurring checks received through the mail and work with the payor to set up ACH deposits. ACH deposits reduce staff time in opening and sorting mail, preparing and reviewing the check log, depositing the checks, and manually posting each receipt to the client's account. In addition, ACH deposits reduce the risk of misappropriation of assets as the client funds are deposited directly to the County's bank. [Priority 2]

Finding 14

Review of cash and check deposits should be performed in a manner that would detect misappropriation of client funds.

The check log listing cash and checks received through the mail or turned in by the deputy is prepared daily by a staff in the Accounting Unit and emailed to all PAGC staff for review. The deputy and estate administrator's (EA) review of the check log, as indicated in the check log instructions, do not ensure that all cash and checks received are posted to the client's account. Each deputy and EA reviews the check log differently in terms of what is reviewed.

Deputies and EAs are responsible for managing and monitoring the client's finances to prevent loss of client assets. Additionally, they are in the best position to know whether cash or checks that should have been received are not recorded in the check log or not posted to the client's account.

The instructions for reviewing the check log state that everyone should scan the check log and review the client's receipt for reasonableness in amount and source. These instructions do not address the deputy and EA's review in a manner that would detect misappropriation of funds (i.e. identifying cash and checks that should be on the check log but are not or identifying cash and checks on the check log but not posted to the client account).

The deputy and EA's review of the check log is an important detective control to identify misappropriation of client funds. Their review is part of the fiduciary responsibility of managing client funds to prevent loss of assets, similar to their review of client balances and approving payment of client bills. A few years ago, the misappropriation of approximately \$10,000 of client funds was identified through a deputy's review of the client's cash balance. The deputy noticed that the client's cash balance was lower than expected.

Recommendation 14.1 PAGC should track the volume of work to reduce the types of transactions appearing on the check log. Setting up more ACH deposits, using debit cards more frequently, etc. would reduce the volume of items in the check log requiring review. [Priority 2]

Recommendation 14.2 PAGC should revise the check log instructions to address how deputies and EAs should review the check log to ensure that cash and checks are posted to the client's account to prevent misappropriation of funds. The controls should address checks received in mail, checks and cash brought in from property search or client visit, and imprest cash for redeposit to the client's account. [Priority 2]

Finding 15

Final accountings required for the final distribution of client estates are not done timely.

Final accountings were not done after nine months to more than two years after the termination or death for about 30% (33 out of 90) of the terminated/decedent accounts tested during a two-year period. During that time frame, a total of 840 accounts were identified as terminated/decedent. Most of the final accountings needed are for LPS terminations. Although the Accounting Unit is responsible for the preparation of the final accounting, information from deputies and estate administrators is needed to complete the process.

Final accountings are required to be submitted to the court for approval prior to the distribution of conservatorship or decedent estate. Although the Probate Code does not specify a timeline when the final accounting has to be submitted, it should be filed as quickly as possible so that final distribution of the client's estate can be done and conservatorship duties terminated when the court officially discharges PAGC.

Lack of management oversight, workload prioritization, and the cooperation of all units involved resulted in final accountings being completed long after the termination/deceased date. Additionally, the required data is not entered in the case management system to ensure that termination/decedent reports identify only cases that need final accounting. Inaccurate reports result in staff spending additional time to conduct research only to conclude that the final accounting is not needed. Because the appropriate date or status has not been entered, termination reports include accounts where a final accounting is not needed (i.e. it is waived, etc). In addition to the incorrect date or status, there are cases where the accounting due date field is blank but should have had the final status date indicating that no final accounting is needed. Person only cases, which do not need a final accounting, are not identified and excluded from the termination/decedent reports. Final accountings that have been completed still have a due date (which indicates that a final accounting is needed) rather than reflect the final date to indicate that final accounting has been done (i.e. 11/11/11 or 11/12/11).

Delays in filing the final accountings result in delays in the final distribution of client estate, collection of certain fees, the court discharging PAGC of its duties, and closing out the account in the case management system. PAGC is responsible for client assets until a final accounting is filed and the court officially discharges it as conservator or administrator.

Recommendation 15.1 PAGC should improve management oversight and monitoring and develop a plan for workload prioritization, to ensure timely completion of final accountings. Final accountings should be done as quickly as possible so that the client's estate can be distributed and that PAGC duties can be formally discharged by the court. [Priority 2]

Recommendation 15.2 Written policies and procedures should be revised to address the expected timeline to complete the final accounting after the termination/death of a client. Exceptions should be reported to PAGC management. [Priority 2]

Recommendation 15.3 PAGC should ensure that the appropriate date and status are correctly entered in the case management system so that termination/decedent reports show only final accountings that need to be completed. This reduces time spent by staff to research cases without final date or status to determine whether a final accounting is needed. For accounts where a final accounting is not needed (i.e. it has been waived, etc) or has been completed, a final status date should be entered to indicate that no final accounting is needed. The termination/decedent report should exclude person only accounts or others that do not need a final accounting. [Priority 2]

Finding 16

PAGC should establish escalation procedures for real property sales that take longer than one year.

More than 96% of the real properties sold between FY03 and FY08 were sold in less than one year. However, we noted approximately 50% (six out of 11) of the real properties with pending status (not sold by FY09) took longer than a year to sell or have not been sold as of June 2010. For properties sold in FY09, 50% (seven out of 14 reviewed) took longer than a year to sell. There are valid reasons that these properties are taking longer than one year to sell; however, escalation procedures are not in place to notify management of the number of properties involved, the reasons for the delay, and the recommended actions.

As part of its fiduciary responsibilities, PAGC should sell client assets as quickly as possible while obtaining the best price for the client. One of the main reasons for selling real properties is to obtain funds needed to pay for the conservatee's care and support.

For properties with pending status, real properties take longer than a year to sell or have not been sold due to the following reasons:

- One property (a decedent case) is a vacant land in another county where the property has been listed for sale since 2005. This property has not been sold as of June 2010.
- Another property took three years to sell due to various legal issues. Contributing to the delay of the sale included the client's 50% ownership of the property, the client's subsequent opposition to the sale, and the eviction of tenants occupying the property.
- Partial ownership of one property is causing the delay as the sales process began in 2005 but the property was not sold as of June 2010.
- For one property, it took two years to sell after three attempts due to the buyers backing out.
- There was one property sold as a short sale after 1.5 years.

- One property was sold after three years due to litigation during the sale.

The reasons why real properties sold in FY09 took longer than a year to sell were legal issues (such as objection to the sale, eviction of tenant from the property, etc.) and the length of time to receive bids. One property took 18 months to sell (from time the sale was initiated to the sale date). Because of the length of time taken to sell, two probate referee appraisals were required (first appraisal in December 2007 for \$1.1M and a second in December 2008 for \$950K) resulting in a loss to the estate.

During a declining market, time is of the essence to minimize the loss to the client's estate. In FY09, 19 real properties were sold totaling approximately \$7M. For the five years prior to FY09, PAGC sold an average of about 32 properties (one year as many as 42 properties were sold).

Recommendation 16.1 Escalation procedures should be established to inform management (Estate Administration Manager and the Public Administrator/Guardian/Conservator) of real property sales that take longer than one year to sell so that appropriate actions can be taken. [Priority 2]

Finding 17 **PAGC should annually review whether fee increases are appropriate.**

There have been only three fee increases in the past 20 years (1993, 2003, and 2009) for the investigation fee, monthly fee, and hourly rate for extraordinary services. Storage fees have not been increased since 2003 and the \$60 hourly rate to perform trust accountings has been the same for the past five years, despite cost of living increases given to employees. PAGC does not have procedures in place to annually review and document whether fee increases are appropriate given the cost of providing services, subject to the court's approval. Also, the frequency for fee increases has not been addressed.

To offset some of the continuing increases to the cost of providing services, fee increases should be reviewed annually. PAGC collected an average of \$1M a year in conservatorship fees for FY04 through FY09. Any fee increase, even a modest one, would help offset some of the increases in the cost of providing services.

Recommendation 17.1 PAGC should review the storage fee and the trust accounting hourly rate of \$60 and request an increase. Storage fees have not been reviewed since 2003 and the trust accounting hourly rate has remained the same for at least five years. [Priority 2]

Recommendation 17.2 Written policies and procedures should be established to address the annual review of fee increases and the frequency of fee increases to ensure that PAGC continues to have the financial resources available to serve those who are unable to care for themselves. [Priority 2]

Finding 18

Bond fee computation process is inefficient.

The current bond fee computation process is inefficient and labor intensive as there is a lot of additional work required to compensate for the lack of accurate inventory information available in the case management system (Finding 1). The monthly process takes about a week when it could be completed in a day or two.

Probate Codes 2942(c) and 7621(d) allow PAGC to collect “an annual bond fee in the amount of \$25, plus one-fourth of 1 percent of the amount of an estate greater than \$10,000”. The bond ensures the faithful performance of the fiduciary. PAGC computes and charges bond fee monthly, on the anniversary of conservatorship appointment. Bond fee computation should be done in accordance with the Probate Code and in an efficient manner so that resources can be allocated to performing other critical tasks, such as court accountings.

The following are some causes of the inefficient bond fee computation process:

- Seven reports are produced to identify all the balances needed for the computation. In addition to these reports, the Inventory & Appraisal and court accountings are reviewed because the staff cannot rely on the inventory information in the case management system.
- The real property report is printed and compared against the seven reports to ensure that no real properties are missed.
- Rather than obtaining all the needed information from the seven reports mentioned above, as it shows only the cash balance, inventory balances have to be obtained for each account in the case management system.
- Because inventory balances are not accurate (i.e. distributed items have inventory values), total asset balance for each account cannot be used. Each inventory line item is reviewed and items on hand are summed for the bond fee computation.
- Inventory items on hand have to be verified because staff found items that have been distributed but still have a pending status (e.g. checks that are received prior to Inventory & Appraisal and were cashed but the inventory item still has pending status).
- For estates with real properties, staff has to check the most recent court accounting rather than relying on the information in the case management system. If the fair market value (FMV) in the court accounting is older than one year, the staff has to contact the deputy to obtain the FMV. Additionally, the staff has to contact the deputy to obtain the mortgage balance on the real property as this information is not available in the case management system.
- For real properties in trust accounts, staff cannot obtain the needed information from the summary screen; they need to view an additional screen to get the balance needed. Inventory balances are based on the information on the Inventory & Appraisal report submitted to the court.

- For estates with financial securities, staff has to check the most recent court accounting because the information is not in the case management system. If the fair market value (FMV) in the court accounting is older than one year, the staff has to contact the estate administrator to obtain the FMV.
- Asset balances are summed and the bond fee percentage is applied using Excel. The calculated total is then manually entered in the case management system. Only the total is entered for real property and personal property; thus there is no trail showing what the balances consist of so it is difficult to verify the bond fee computation.
- The accounting staff calculating bond fees has a lot of discretion as to which estate values to use (such as the current market value in the case management system, the value in Inventory & Appraisal report filed with the court, the value in court accounting, or whether to contact the deputy to obtain the fair market value) as well as what assets to include in the computation.
- As part of the bond fee computation, the staff checks to see if prior year fees were charged; however, if this is not done, missed charges of prior year fees would go undetected until the next court accounting is prepared (every two years). The accounting supervisor spot checks bond fees but does not do so each month.

Inefficiencies in the bond fee computation process prevent staff from performing other critical tasks. Three days saved a month could result in the completion of multiple court accountings.

Recommendation 18.1 PAGC should work with Panoramic to automate bond fee computation.
[Priority 2]

Recommendation 18.2 PAGC should revise the bond fee collection written policies and procedures to address which estate values should be used, which assets to include, and the supervisory review of bond fee computation. The clarification will eliminate the discretion that staff has when computing the bond fees. [Priority 2]

Finding 19

Written policies and procedures for approving bond fee payments should be followed.

The written policies and procedures for approving bond fee payments are not being adhered to as follows:

- Seven out of 19 accounts (approximately 30%) tested in the bond fee reports had no instructions from the deputy and the bond fees for these accounts were not paid. However, it was unclear as to whether the fees should have been paid based on the available cash balance.

- The majority (95%) of the bond fee reports provided to the deputies requesting authorization to collect the fee did not have evidence of the supervising deputy's review (i.e. no initials).
- Many of the bond fee reports requesting deputy authorization for collection are returned to the Accounting Unit after the timeline specified in the written policies and procedures or are not returned at all, resulting in accounting staff having to spend additional time to follow-up.

The written policies and procedures for the collection of bond fee requires deputies to review the bond fee report and mark delete, defer, or waive next to each client. No marking means that bond fee should be paid. The written policies and procedures also require the supervising deputy to initial the bond fee report indicating approval of the deputy's determination of whether the fees should be waived, deferred, or paid. Additionally, the written policies and procedures require the deputy and supervising deputy to review and return bond fee report, with instructions, within 10 and 15 working days, respectively.

The written policies and procedures for the collection of bond fees are sometimes overlooked because of the deputy's workload. It is important that the deputies review the bond fee report and provide the required instructions to approve or defer payment so that accounting staff can take the appropriate action. The supervising deputy's review is an important control activity to ensure that the deputy properly assesses the client's financial status when deferring or deleting the bond fee payment.

Recommendation 19.1 All deputies and supervising deputies should adhere to the bond fee collection written policies and procedures to ensure that the bond fee reports are reviewed and returned to the Accounting Unit by the required timeline, have the appropriate payment instructions, and include the supervisor's initials to document the review. [Priority 2]

Recommendation 19.2 The accounting staff should adhere to the bond fee collection written policies and procedures by collecting the fee when there are no instructions from the deputy on the bond fee report. Since deputies are required to indicate delete, waive, or defer on the bond fee report, no instruction from the deputy indicates the approval to collect the fee. [Priority 2]

Recommendation 19.3 To eliminate the late or no response from the deputies, bond fees should be set up in Panoramic to where the default is to pay the bond fees if the deputy does not return the bond fee report timely. [Priority 2]

Finding 20 **PAGC should document its policy of not collecting representative payee fees and communicate this policy to the Board.**

PAGC is not collecting a representative payee fee as they do not want to

collect this fee from those who are supporting themselves with Social Security and Supplemental Security Income (SSI) benefits. However, this policy is not documented and has not been communicated to the Board.

Social Security Administration allows qualified organizations to collect a monthly fee as representative payee, provided that certain conditions are met. As of February 2010, there are 26 clients for which PAGC serves as representative payee. Social Security Administration allows monthly fee collection of the lesser of 10% of combined Social Security and SSI or \$37. The annual fee collection would be \$444 per client (based on \$37 fee allowed per month). If there are 26 clients as identified in February 2010, the annual fee could be \$11,500. In May 2010, we noted there were 75 clients with PAGC representative payee status.

Recommendation 20.1 PAGC should document its policy of not collecting representative payee fees and communicate this policy to the Board. [Priority 2]

Finding 21 **Improvements are needed over timeliness of closing terminated and decedent accounts.**

Approximately 50% (12 out of 23) of the accounts tested had not been closed and balances cleared after three years or longer after the conservatorship termination date. Also, there are approximately 50% (11 out of 23) of the accounts that had been closed years ago but still have a cash balance.

Terminated conservatorships should be closed and balances cleared as soon as possible in the case management system. No expected timeline has been established and management oversight over timely closure is lacking. For accounts that were closed but still have a cash balance, the monies were deposited after the account was closed and even though there were balances, these accounts no longer appeared on the estate administrator's pending reports used to monitor account status. Thus, no follow-up was done on these accounts.

If terminated conservatorship accounts are not closed out timely, additional time is spent reviewing the pending list, changes in deputies and estate administrators make it difficult for the next person to close out the case, interest continues to be deposited to the account, etc.

Recommendation 21.1 PAGC needs to establish the timeline expected to close decedent or terminated cases and monitor for compliance. Cases that take longer than the established timeline need to be escalated to PAGC management. [Priority 2]

Recommendation 21.2 Written procedures should be established so that deposits or interest earnings are not posted to accounts that are closed or had final distribution. [Priority 2]

Recommendation 21.3 PAG should periodically review all closed cases with trust balances to determine the appropriate action (i.e. collect unpaid fees, send to client/beneficiary/successor trustee, escheat to the State, etc.) [Priority 2]

Finding 22

Improvements are needed over the periodic physical inventory process to ensure proper safeguarding of client assets.

We were unable to determine whether the September 2009 periodic physical inventory conducted at the warehouse (where personal properties such as household furnishings, cars, boats, etc. are kept) had taken place. In addition, there has been no periodic physical inventory of items in the locked room (where valuable items such as jewelry and important documents are kept) since the first inventory in 2006.

There was no documentation to demonstrate that a physical inventory had been completed for items stored in the warehouse, no detail listing of which items were reviewed, no markings or notation indicating which items were reviewed on the report used to take the inventory, whether any differences were identified that requires adjustments to the perpetual record (case management system). A spreadsheet listing the client's name and location was used for the periodic physical inventory rather than a detail report showing all inventory items in the case management system located at the warehouse.

An accurate and complete periodic physical inventory on a regular basis is an important part of PAGC's fiduciary responsibilities to safeguard client assets, to ensure accurate court reporting, and to ensure the inventory records are accurate for the monthly storage fee charged to the client.

Written policies and procedures for the performance of periodic physical inventories at the warehouse and the locked room have not been developed. Also, during an inventory, it is a common occurrence that the estate property technicians (EPT) are called away and return to continue the inventory another day and the reports used are not marked to indicate items already reviewed. Without proper documentation and evidence of a periodic physical inventory, PAGC cannot demonstrate that an important control activity, put in place to safeguard client assets, has been performed. The case management system shows approximately 750 items in the warehouse and approximately 2,000 items in the locked room.

Recommendation 22.1 Written policies and procedures should be established to ensure an accurate and efficient periodic physical inventory. The policy should address the frequency of the periodic inventory for the locked room and the warehouse, how the inventory should be conducted, how interruptions to the inventory process should be handled when the EPTs are called away (i.e. inventory should stop when the EPT is called away and start with new inventory list rather than starting again with all inventory items as some have already been tested), the reports to be used, the documentation required to demonstrate that an inventory had taken place,

process to reconcile results of the inventory with the case management system, and a strategic approach for selecting which property to test.
[Priority 2]

Recommendation 22.2The periodic physical inventory (for both warehouse and locked room) should be tracked in Panoramic so there is record of the inventory.
[Priority 2]

Finding 23 **PAGC needs to complete its review and update of written policies and procedures.**

PAGC's Policy and Procedures Committee has been working on updating the written policies and procedures for the past 12 months. But the review and update has not been completed. The current procedures have not been updated since 2002 and thus do not address the implementation of SAP in 2003 and the new case management system in November 2009. PAGC states that approximately 60 policies are currently under review.

Written policies and procedures should be regularly reviewed and updated to ensure that procedures are still relevant and to assist staff in properly performing their tasks.

Recommendation 23.1PAGC should complete its review and update of all written policies and procedures, through the Policies and Procedures Committee, to address the implementation of SAP, the implementation of the new case management system, and procedures where practice is different than written procedures. [Priority 2]

Finding 24 **Improved communications are needed to ensure that PAGC is aware of all General Assistance loans to conservatees.**

The current system in place between PAGC and the Department of Employment and Benefits (DEBS) prevents PAGC from being fully informed of all sources of conservatee's income. PAGC is not always aware of the General Assistance (GA) loan their clients are receiving due to the following practices:

- DEBS sends GA loans to the vendors or conservatees instead of PAGC.
- DEBS does not consistently notify PAGC of the conservatee's GA loan status. The Notice of Action (NOA) letters to accept or reject the loan request are sent to the conservatee or to the vendor rather than to PAGC. If the conservatee is eligible for Social Security or SSI, benefit payments would be reduced to repay a portion of the GA loan. This is how PAGC learns that GA loan was made to the client.
- PAGC does not inform DEBS when the conservatorship has been terminated.

PAGC should be informed of the GA loan status for all conservatees and should receive all loan payments as it has been appointed by the court as conservator to manage all aspects of the conservatee's finances.

DEBS sends the GA loans and the NOA letters to the vendors or clients, instead of PAGC, because there are two conflicting procedures in the County GA Handbook and there is no process in place to ensure that the eligibility worker notifies PAGC of the loan status. PAGC does not inform DEBS when the conservatorship has been terminated because written policies and procedures for processing and obtaining GA loans do not address notification to DEBS.

If GA loans are sent directly to the vendors, there is a risk that the vendor may also bill the client for the same services already paid by DEBS. PAGC does not know how many clients actually received GA benefits because it does not always receive the NOA from DEBS. At the time of our testing, PAGC applied for GA benefits for 56 clients. If PAGC is not aware of all sources of the client's income, it cannot properly manage their funds (which can affect the payment of the client's bills) and cannot assist in repaying outstanding GA loans. Of the accounts tested, 50% of the clients had outstanding GA balance and did not have ability to pay. However, if PAGC is aware of the loan then future payment can be made when the client has available funds. It is important to notify DEBS when the conservatorship is terminated so that payments or demand letters are sent to the appropriate address.

Recommendation 24.1 PAGC should revise their written policies and procedures to notify DEBS when conservatorship ends for clients receiving or has outstanding GA loans. [Priority 2]

Management Action

24.2 DEBS has revised the County General Assistance Handbook so that all General Assistance payments are sent to PAGC and not the vendor or conservatee.

Management Action

24.3 DEBS has created a CalWin announcement with instructions to eligibility workers processing PAGC cases to send the Notice of Action letter to PAGC.

Finding 25 **SSA is not recording low value assets in SAP as required by County policy.**

The Social Services Agency (SSA) Central Services Division records low value assets in a separate system (FAMS) rather than in SAP as required by County policy. This was identified as part of our review of PAGC's fixed and low value assets, which are recorded by SSA Central Services.

The County Policy on Fixed Assets requires that certain low value assets

(such as server, networks, computers, printers, monitors, etc.) be recorded in SAP.

SSA has been using a separate system to record their fixed and low value assets to comply with grant reporting requirements. In the past, there were challenges in getting the data from FAMS into SAP without expending a tremendous amount of resources.

In order for the County to properly plan for the purchase and replacement of computers countywide, all required low value assets need to be recorded in SAP. As of our testing in April 2009, approximately \$6.5M in SSA purchases for servers, networks, computers, printers, and monitors are recorded in FAMS. Upon being informed by Internal Audit of the need to record the required low value assets in SAP, SSA Central Services has been very proactive in working with the Controller-Treasurer Department's ASAP team to comply with County policy.

Recommendation 25. SSA Central Services should continue its efforts in working with the Controller-Treasurer Department's ASAP team to load low value assets in FAMS to SAP. [Priority 2]

Finding 26 **Monitoring is needed over access to update the vendor master data and to ensure that only vendors who meet established criteria are added.**

All 167 Panoramic users have access to create, change, or delete a vendor in the case management system. These users include PAGC permanent staff, Extra Help, SCC Works, certain County Counsel and SSA staff. Internal Audit was able to create a fictitious vendor.

Additionally, important procedures specified in the Vendor Control Process written policies and procedures are not followed. The non-compliance includes:

- The vendor verification process is not performed to ensure that only vendors meeting the established criteria are accepted. This includes reviewing the vendor's status with the Better Business Bureau, insurance, business license, tax ID (EIN/SSN), bank account information, etc.
- There is no annual review of all active and authorized vendors to ensure that the vendor still meets established criteria (such as license, insurance, bank account, good standing with Better Business Bureau, etc.) in order to maintain an active status.
- There is no supervisory review of the vendor control coordinator's work to ensure required procedures are performed before accepting a vendor.
- Vendor satisfaction survey is not submitted with the request for final payment. The submission of this job completion survey is important as this is the deputy or EA's feedback on the vendor's performance.

- One-time vendor code is use for vendors where recurring payments are made. This code is intended for one-time usage, such as the final distribution of assets from the client's estate or payments to non-established vendors for emergency work. From January 2010 through April 2010, there were 619 payments with one-time vendor code. Approximately 20% of the one-time payments were for final distribution of the client's estate. We noted many instances where one-time vendor code was used for recurring payments to vendors such as AT&T, Bank of America, Capital Villa, Catholic Charities, PG&E, Tropicana Drugs, Hillside Care Center, Outreach, California State Controller, etc.
- Staff who can issue payments (Accounts Payable Unit) was a vendor referral source in nine instances.

Access to create, change, or delete a vendor in the case management system should be limited to only the permanent employees performing the task and their back-up. The Vendor Control Process written policies and procedures require the completion of important tasks to ensure that vendors are properly set-up and evaluated annually. Deviations from the written policies and procedures require pre-approval from the Social Services Program Manager or Program Manager.

The prior case management system allowed all users access to update vendors and this set-up was not reviewed during the Panoramic implementation. The lack of compliance with the Vendor Control Process written policies and procedures resulted as employees responsible for setting up vendors are not properly trained and no supervisory review is conducted to ensure all required procedures are followed.

Strong internal controls are needed over vendor set-up to ensure that only vendors who have met the established criteria are approved. If access to vendor creation is not restricted to appropriate staff, there is risk that a fictitious vendor could be established and inappropriate payments issued or the vendor master data could be changed or deleted. As of May 28, 2010, there are approximately 2,800 active vendors in the case management system. Because vendor verification was not performed, it is not known how many vendors have not provided the required license and insurance information.

**Management
Action 26.1**

Upon being notified by Internal Audit, PAGC immediately worked with Panoramic to restrict access to create and update vendors.

Recommendation 26.2 PAGC should properly train and supervise staff responsible for vendor set-up to ensure that all required tasks, as specified in the written policies and procedures for Vendor Control Process, are performed. [Priority 2]

Recommendation 26.3 PAGC should ensure that the appropriate license, insurance, and other required documents are current for all active vendors during the annual vendor review process. [Priority 2]

Recommendation 26.4 PAGC should revise the Vendor Control Process to address access to vendor set-up to ensure that access is not given to employees with conflicting duties (i.e. staff who can initiate or authorize payment should not have access to set up vendor). [Priority 2]

Recommendation 26.5 PAGC should create a report to monitor the usage and volume of one-time vendors. This report should be reviewed regularly and recurring vendors should be added as an active vendor. [Priority 2]

27. Other Findings

It is our policy to report all findings during the audit to the appropriate level of management. The chart below lists audit findings that we consider less significant.

#	Findings	Manager
27.1	The review of unpaid court ordered fees performed by the Accounting Unit is done every six months, instead of more frequently (i.e. every month or every three months).	Trust & Fiduciary Accounting Manager
27.2	<p>On a daily basis, accounting staff prepares a spreadsheet showing the flow of cash activities in Panoramic. The beginning cash balance is added to the total receipts less total disbursements to obtain the ending cash balance. This ending cash balance is compared to the End of Day Cash Balance report. There are several inefficiencies noted with this process:</p> <ul style="list-style-type: none"> • Creating a spreadsheet to enter information already in the system. • Daily printing of a 30-page End of Day Cash Balance Report, 16-page disbursement journal, multiple page receipt journal. The reports are printed to obtain the total ending cash balance for the daily cash balancing. 	Trust & Fiduciary Accounting Manager
27.3	Court accounting staff enters the inventory value in the inventory field instead of the property clerks, who are responsible for entering information from the Inventory and Appraisal report into the case management system.	Trust & Fiduciary Accounting Manager
27.4	PAGC does not always receive court orders from County Counsel's Office and has to spend time searching for them.	Trust & Fiduciary Accounting Manager
27.5	Court orders approving accountings are not always entered in the case management system timely. The goal is to enter court order within a week but we noted instances where court orders were not entered for more than three weeks. Thus these accountings were included in backlog report even though the accounting has been approved.	Trust & Fiduciary Accounting Manager
27.6	The manual process of completing the fee worksheet (for new fee or six month review of outstanding fees) for every client that owes fees is labor intensive and may cause mathematical errors. This process should be automated.	Trust & Fiduciary Accounting Manager
27.7	In one instance, a \$30 "discount" was given by the tax preparation staff because an incorrect tax fee was provided to the deputy and payment had been made from the estate. No "discount" in fees should be given without proper management approval.	Trust & Fiduciary Accounting Manager
27.8	Panoramic does not flag ACH deposits that are identified as a non-match for clients with terminated/deceased status. Accounting staff has to research each non-match item to identify whether the client is terminated/deceased. The identification of terminated/deceased client is important because the PAGC has to return the money to the sender.	Trust & Fiduciary Accounting Manager

27.9	PAGC is currently preparing an excel spreadsheet listing all ACH deposits received for terminated/deceased client to send to the bank to return to the sender. As this ACH deposit information is already in Panoramic, the system should generate the list.	Trust & Fiduciary Accounting Manager
27.10	ACH deposits for deceased/terminated/person only accounts should not be taken in by PAGC, posted to client's account, transferred to holding account, and then sent to bank for return to sender. Upon matching the ACH deposits, in Panoramic, any deposits for terminated/deceased/person only should be returned to bank and not posted to client account.	Trust & Fiduciary Accounting Manager
27.11	For ACH deposits of terminated/deceased/person only client that need to be returned, PAGC is faxing an excel spreadsheet listing the information from the original deposit along with copies of banks statements showing the original deposit. This is time consuming and not necessary as the bank should have the deposit information.	Trust & Fiduciary Accounting Manager
27.12	Bank adjustments for ACH deposits (that are returned to the sender for terminated/deceased/person only client) are posted after 24 hours, sometimes after more than a week. The untimely posting of adjustments by the bank requires PAGC to spend additional time reconciling cash and following-up.	Trust & Fiduciary Accounting Manager
27.13	There are two ACH holding accounts (#900000 and #911000). Only one account is needed.	Trust & Fiduciary Accounting Manager
27.14	PAGC inconsistently uses GLA 1120240 (A/R Misc) and GLA 1120210 (A/R Interest) to accrue residual interest due to the General Fund. PAGC continues to use A/R Misc account when A/R Interest account should be used.	Trust & Fiduciary Accounting Manager
27.15	Receivable of \$1,498 (GLA 1120360- A/R Recorder's Returned Checks) recorded in Trust Fund 361 does not belong to PAGC. It is not known as to what this balance is or how it was recorded in the incorrect GLA. The receivable balance was transferred from STARS to SAP in July 2003 and there has been no activity in this account. This was identified in the Custody Financial Audit Report.	Trust & Fiduciary Accounting Manager
27.16	Unused imprest cash (for client purchases or client use) submitted for deposit is given to Accounts Payable (to reconcile against imprest cash form) who then forwards the cash to the person preparing the check log. This creates an unnecessary additional step in the transfer of cash. The Accounts Payable unit can perform their reconciliation of imprest cash for redeposit by reviewing the check log and does not need physical custody of cash.	Trust & Fiduciary Accounting Manager
27.17	Interest earned on burial trust cash has not been recorded in the case management system at year-end. The cash balance at the bank is higher than the burial cash balance in the case management system. PAGC should request Panoramic to work with Bank of America to automate interest posting through the automated affidavit of deposit.	Trust & Fiduciary Accounting Manager
27.18	Burial Trust balance in the case management system includes both cash and prepaid burial plots/services, which should be separated for	Trust & Fiduciary

	ease of recording and reconciliation in SAP.	Accounting Manager
27.19	Other Restricted Cash (Burial Trust cash) balance in SAP did not tie to the burial trust cash balance from Bank of America at 6/30/09. The SAP balance should be adjusted to reflect the amount in the bank statement.	Trust & Fiduciary Accounting Manager
27.20	The case management system does not show a history of all the accountings that have been filed (i.e. 1 st , 2 nd , final, etc.) along with the date to County Counsel's Office and court approval date. The system only shows the detail data for the most recent accounting. For example, if the most recent accounting is the 15th accounting, only the dates for that accounting is shown and not the previous accountings.	Trust & Fiduciary Accounting Manager
27.21	There are accounts where final distribution of client's estate has been made but there is still a small balance left (i.e. interest posted after final distribution).	Trust & Fiduciary Accounting Manager
27.22	Multiple checks are issued to the same vendor who provides services to more than one client.	Trust & Fiduciary Accounting Manager
27.23	Deputies approve the payment of client's bill in Panoramic but are also required to sign off on the bill and submit it to Accounts Payable in order for payment to be processed.	Trust & Fiduciary Accounting Manager
27.24	The Accounting Due Report includes accountings that are not required to be completed (25 out of 142 reviewed). These include accountings that have a final status date (to indicate that an accounting or waiver has been completed), date other than final status date, or status codes that do not require an accounting (such as person only). Eliminating the accounts that do not require accounting will substantially reduce the size of the report and allows staff to quickly identify only the accounts that need an accounting. For a two-year time frame, there were approx 3,500 line items in the report but only about 800 line items required an accounting. It is inefficient for staff to perform additional review for items included in the report only to conclude that no accounting is needed.	Trust & Fiduciary Accounting Manager
27.25	While some court accounting schedules are generated in the case management system, many schedules are prepared in a separate Excel spreadsheet. These schedules include: Schedule C-Property On Hand, Schedule D-Personal Property Management, Schedule G-Gain on Sale, Schedule I-Other Income, Schedule R-Expense of Sale, Schedule S-Assets subsequently acquired, Fair Market Value Schedule, Additional Fee Activity and Code Schedule, Fee Computation Worksheet.	Trust & Fiduciary Accounting Manager
27.26	Court accounting backlog reports include accountings that have been approved by the court and excludes accountings that should have been included (i.e. trust accounts). The proper tracking of accountings approved by the court is dependent on staff changing the priority code	Trust & Fiduciary Accounting Manager

	on the Accounts Payable report (used to track fees approved by the court). If the accounting has been approved by the court and the priority code has not been changed, it will show up in the backlog report.	
27.27	Accountings where more than six months have passed since completion but has not yet been filed with the court are updated with current information. This takes up resources that could be spent on preparing new accountings.	Trust & Fiduciary Accounting Manager
27.28	PAGC established the \$800 cash balance threshold to determine whether to collect PAGC fees more, than 10 years ago. This threshold should be reviewed to see if this level is still appropriate.	SSPM III
27.29	There are no written policies and procedures addressing the selection criteria, performance expectations, actions for nonperformance for real estate agents and property management companies, and the explicit exclusion of employees/family members.	Estate Administrator Manager
27.30	There are no written policies and procedures on how pre-numbered property records are issued and how they should be stored.	Estate Administrator Manager
27.31	Noted one instance where estate administrator assistant's extra fees of \$680 (for work related to the sale of real property) were not requested in a Public Administrator trust accounting. Although the services were performed prior to the accounting period end date, the work was entered in the case management system after the accounting period end date and thus the fees were not included. PAGC should require that all work done be entered timely in the case management system to ensure that all services provided are included in the accounting. As part of their review, the Supervising Estate Administrator or Supervising Deputy should determine whether fees were missed to maximize revenue collection.	Estate Administrator Manager
27.32	Public Administrator fees are paid through Payment Request but should be paid through the regular A/P process (similar to PG fees). Payment Requests should only be used in unforeseen circumstances where the payment is needed immediately and cannot wait for the normal A/P process.	Estate Administrator Manager
27.33	Extraordinary fees are not charged at the appropriate rate for three out of 24 items tested (12.5%). The hourly rate for estate administrator assistant (EAA) is \$60 per hour. However, for the EAA fee and the Admin fee, work done by EAA is charged at the higher rate (at estate administrator's rate of \$65 for financial securities and miscellaneous services or at management rate of \$90 for work related to real property sale). PAGC should establish procedures to ensure that the proper fees are charged based on the rate of the person performing the work or use a weighted average if any staff may do the work.	Estate Administrator Manager
27.34	PAGC tracks real property sales in an Excel spreadsheet. This should be done in Panoramic.	Estate Administrator Manager
27.35	PAGC enters data already in the case management system to an Excel	Estate

	spreadsheet to track Inventory and Appraisal filings. A report should be generated to save time entering data that already exists.	Administrator Manager
27.36	Certain original documents (driver's license and Social Security card) were located in the Benefits Unit instead of in the locked room as required by written policies and procedures.	Estate Administrator Manager
27.37	There are incorrect location codes (stock certificate identified as being in the locked room but is with the broker) in the case management system.	Estate Administrator Manager
27.38	One missing item in our periodic physical inventory testing was included in the list of items to verify during the warehouse periodic physical inventory due to incorrect status code. This item was identified as missing during a previous inventory.	Estate Administrator Manager
27.39	PAGC was assigned as the administrator to handle decedent cases (not originally Public Administrator clients) from the cremation lawsuit as there was no one else to handle them. One of the accounts in our testing was from the cremated lawsuit and still had a cash balance. As PAGC incurs cost to handle these accounts, it should determine whether the remaining cash balance can be taken as fees for all cremated lawsuit cases that still have a cash balance.	Estate Administrator Manager
27.40	The Real Property/Mobile Sale policies and procedures does not reflect the current practice of accepting bids prior to obtaining appraised value from probate referee as well as document controls that prevent PAGC from accepting a bid that is not in the best interest of the client (i.e. probate referee is an independent appraiser appointed by the court, overbids are accepted during court confirmation of sale)	Estate Administrator Manager
27.41	Seven out of 137 (5%) items tested did not have a date in the inventory due date field. This date is important in the tracking and monitoring reports.	Estate Administrator Manager
27.42	The monitoring reports for conservatorships include accounts where an Inventory and Appraisal is not required (such as person only or cases with existing probate).	Estate Administrator Manager
27.43	The monitoring reports for both conservatorship and administration of decedent estate do not include important dates (date the inventory was completed by the deputy, the date sent to legal secretary, the date sent to County Counsel, etc.) These dates are in the case management system but are not reflected in the monitoring report.	Estate Administrator Manager
27.44	We noted 24% (4 out of 17) of property record forms lacked dual signatures (EPT and person receiving the asset).	Estate Administrator Manager
27.45	PAGC petty cash of \$1,500, used to provide emergency purchases for clients, is recorded in SSA Financial Management Services cost center (4800) rather than the PAGC cost center.	Implemented
27.46	Prepaid burial services and prepaid plots of \$85,176.08 are not recorded in SAP as Prepaid Expenses.	Implemented
27.47	Interest Receivable-Miscellaneous (GLA 1120240) of \$162, 454.78 recorded in the General Fund did not exist as of June 30, 2008. This residual interest accrual was not reversed when the interest was paid.	Implemented

County of Santa Clara

Social Services Agency



333 W. Julian Street, 5th Floor
San Jose, California 95110

DATE: July 30, 2010

TO: Bill Perrone, Internal Audit Manager
Vinod Sharma, Controller-Treasurer

FROM: Will Lightbourne
Agency Director, Social Services Agency

SUBJECT: Agency Response – Custody Audit Internal Controls Report of the Public Administrator/Guardian/Conservator's Office

The Agency received the completed Internal Audit Report – Custody Audit Report of the Public Administrator/Guardian/Conservator's Office. This memorandum serves as the Agency's response to the audit findings and recommendations.

FINDING 1: Other Restricted Assets of \$72.5M in the financial statement could not be verified.

Agency Response

The Agency concurs with the finding. This finding is not affecting the accuracy of our court accountings but it is correct to state that the system does create more work when preparing the accounting documents. We have cleaned up the filing system and in doing so converted the documents to an electronic filing system. Fixed assets and securities will be evaluated for fair market value on an ongoing basis and adjustments to the total carried in the county's SAP application will be made once a year in June.

FINDING 2: PAGC makes late residual interest income payments (\$451,263.41 to the General Fund.

Agency Response

The Agency concurs with the finding. Since the Audit Report was completed, the Agency has transferred residual interest to the County General Fund for FY 2009 Qtr 4 and FY 2010 Qtr 1, Qtr 2, and Qtr 3. Hereafter, the Agency will complete the computation of residual interest and transfer to the County General Fund within the same quarter as received from the Controller-Treasurer Department.

FINDING 3: There is a lack of monitoring over approximately 38% of the Inventory and Appraisal reports that are not submitted to the court by the timeline specified in the Probate Code.

Agency Response

The Agency concurs with the finding. Probate Code 2610 states that a Probate Inventory and Appraisal Report (I&A) will be filed within 90 days after appointment, or

within any further time that the court deems appropriate. This code is written to allow for unusual circumstances such as the notice to obtain a Probate Referee, clean and fumigate a house, or litigation pursued by other parties to remove the case from our authority. The PAGC will maintain a key performance indicator report; follow up to identify reasons for delays and to improve timeliness of I&A reports.

FINDING 4: Oversight is needed over PAGC's financial operations to ensure required financial activities are properly and timely processed.

Agency Response

The Agency concurs with the finding. A comprehensive review of PAGC financial operations is in progress, and changes to financial practices will be implemented to ensure integration of standard financial practices across the Agency.

FINDING 5: The process of monitoring the payment of client's bill is inefficient.

Agency Response

The Agency concurs with the finding, and is in the process of developing corrective action plans to resolve.

FINDING 6: Investigation, basic, and extraordinary fees are not computed at full cost recovery and fee increases not submitted to the board for acceptance.

Agency Response

The Agency concurs with the finding. The Agency will submit fee increases and storage and tax preparation costs charged to clients to the Controller-Treasurer Department and the Office of Budget and Analysis for review prior to submitting to the Board of Supervisors for review and approval. In addition, the Agency will compute the fully loaded cost of providing services for the investigation, basic, and extraordinary services and provide the actual cost of providing services and recommended fees to the Court.

FINDING 7: Data integrity verification is needed to ensure the accuracy and completeness of data converted to the new case management system (Panoramic).

Agency Response

The Agency concurs with the finding. As indicated in the findings, data integrity verification was completed based on priority of critical data being imported to the new Panoramic system. It included all Transaction data, Property data, and Worksheet events data. As part of the implementation all client records were verified as having been imported properly with balances that matched control totals. PAG /C caseworkers were tasked with reviewing all of their cases for completion and accuracy. Due to resource constraints not all non-critical data elements were imported before implementation. To mitigate the risks Panoramic continued to import data throughout the implementation and the legacy Computers system was available to view at anytime. This occurred from November 2009 through July 2010. PAG staff will continue to have access to legacy data reports to assist in data lookup and import verification of any remaining non-critical data. The specific

examples in the finding of missing data have been corrected. Inventory and Appraisal data is displaying correctly from the legacy system and the Court Accounting completed/to County Counsel data is displaying properly as well.

FINDING 8: Although PAGC is aware of the benefits of interfacing Panoramic and SAP, other priorities have prevented PAGC from pursuing the interface during implementation.

Agency Response

The Agency concurs with the finding. A comprehensive review of PAGC financial operations is in progress. Financial practice changes and revisions to the case management system, including the development of the Panoramic/SAP interface, will be incorporated into the integration of standard financial practices across the Agency.

FINDING 9: Deferred and unpaid fees of approximately \$4.5 million should be communicated to SSA management and the Board.

Agency Response

The Agency concurs with the finding. The PAGC is working with Panoramic to develop a report on "All Fees Generated, Collected and Deferred". The report will be used by the PAGC to monitor, manage and inform. This report will be added to the key performance indicators system to communicate information.

FINDING 10: Deposits in temporary holding accounts totaling approximately \$252,500 should be recorded in the client's account or returned to the payer on a timely basis.

Agency Response

The Agency concurs with the finding. Since the Audit Report was completed, the Agency has cleared the temporary holding account. A comprehensive review of PAGC financial operations is in progress, and operational changes will be implemented to ensure integration of standard financial practices across the Agency.

FINDING 11: Approximately \$180,000 of monthly fees was not charged due to the PAGC's policy of implementing new fees.

Agency Response

The Agency concurs with the finding. The past practice has been to request new fee increases, which have been granted by the court, during the annual or bi-annual accounting review. This method provides a forum for interested parties to object to court ordered fees during the compliance hearing. The PAGC will begin billing the new monthly rate of \$125 on all remaining cases. Objections to court ordered fees will take place when the clients' court accounting comes due at the compliance hearing.

FINDING 12: The PAGC should work with a financial advisor to establish guidelines in reviewing client financial securities (estimated \$6.8M).

Agency Response

The Agency concurs with the finding. The PAGC will contract with a financial expert to conduct an annual educational seminar. The seminar will provide direction to Estate Administration DPG's on how to establish guidelines for reviewing client securities. The PAGC will also utilize this financial expert (as needed) for advice on the management of selected client portfolios.

FINDING 13: Recurring checks received in the mail should be set up as ACH deposits.

Agency Response

The Agency concurs with the finding. The Agency will plan and implement ACH to the maximum practicable opportunity.

FINDING 14: Review of cash and check deposits should be performed in a manner that would detect misappropriation of client funds.

Agency Response

The Agency concurs with the finding. The Agency will revise cash and check deposit internal control procedures and provide instructions to the various units involved in the continuum of the process.

FINDING 15: Final accountings required for the final distribution of client estates are not done timely.

Agency Response

The Agency concurs with the finding. The Agency will revise policies and procedures to address timely processing of final estate accountings, and establish internal controls and procedures to monitor performance.

FINDING 16: The PAGC should establish escalation procedures for real property sales that take longer than one year.

Agency Response

The Agency concurs with the finding. PAGC will develop a benchmark system that will require a real property sales review by the supervisor after 3 months on the market, a PAGC manager review after 6 months on the market, and PAGC executive management review if the property has been on the market for 12 months or more.

FINDING 17: The PAGC should annually review whether fee increases are appropriate.

Agency Response

The Agency concurs with the finding. The PAGC will develop a policy to review fees for possible increases on an annual basis. If a fee increase is needed the PAGC will submit a petition to the court and a transmittal to the BOS for approval.

FINDING 18: Bond fee computation process is inefficient.

Agency Response

The Agency concurs with the finding. The Agency will revise bond fee computation processes and procedures to ensure appropriate estate values and assets are used, coordinate changes to the case management system to automate bond fee computations, and ensure supervisory review of bond fee computations.

FINDING 19: Written policies and procedures for approving bond fee payments should be followed.

Agency Response

The Agency concurs with the finding. A comprehensive review of PAGC financial operations is in progress, and operational changes will be implemented and staff training will be conducted to ensure the integration of standard financial practices across the Agency.

FINDING 20: PAGC should document its policy of not collecting representative payee fees and communicate this policy to the board.

Agency Response

The Agency concurs with the finding. The PAGC will develop a policy to reflect a decision not to charge the \$37 rep payee fee to clients that are living on SSA & SSI incomes.

FINDING 21: Improvements are needed over timeliness of closing terminated and decedent accounts.

Agency Response

The Agency concurs with the finding. The PAG has reviewed the policy for the distribution of decedents' assets and will update our procedures to include a written status report within 12 months on new cases and to close all cases without ongoing litigation issues within 24 months.

FINDING 22: Improvements are needed over the periodic physical inventory process to ensure proper safeguarding of client assets.

Agency Response

The Agency concurs with the finding. PAGC will review the process of documenting physical inventories of client assets in order to improve on the detailed information provided in the report.

FINDING 23: PAGC needs to complete its review and update of written policies and procedures.

Agency Response

The Agency concurs with the finding. PAGC management will establish benchmarks for the Policy and Procedures Committee for the timely completion of policy and procedure review, changes, creation and implementation.

FINDING 24: Improved communications are needed to ensure that the PAGC is aware of all General Assistance loans to conservatees.

Agency Response

The Agency concurs with the finding. The PAGC will review the policy regarding GA loans and ensure that termination notices are sent to DEBS for those clients who have a GA loan in place.

FINDING 25: SSA is not recording low value assets in SAP as required by County policy.

Agency Response

The Agency concurs with the finding. SSA Central Services is in working with the Controller-Treasurer Department's ASAP team to load low value assets in FAMS to SAP. This project is expected to be completed by September 30, 2010.

FINDING 26: Monitoring is needed over access to update the vendor master data and to ensure that only vendors who meet established criteria are added.

Agency Response

The Agency concurs with the finding. A comprehensive review of PAGC financial operations is in progress, and revisions to the case management system are in development to ensure compliance with vendor and financial management requirements.

FINDING 27: Other Findings

Agency Response

The Agency concurs with the findings, and is developing corrective action plans to resolve.