

Internal Audit Division – Assurance Audit Report



Social Services Agency - Public Administrator/Guardian/Conservator Audit of Key Controls

May 19, 2022

Assignment #: 10281-F

Audit Staff

Robyn Rose, CPA, CICA, Internal Audit Manager

Alla Long, CPA, CICA, Senior Internal Auditor-in-Charge

County Executive

Dr. Jeffrey V. Smith, M.D., J.D

Chief Operating Officer

Miguel Márquez, M.P.P., J.D.

Board of Supervisors

Mike Wasserman, District 1

Cindy Chavez, District 2

Otto Lee, District 3

Susan Ellenberg, District 4

S. Joseph Simitian, District 5



THIS PAGE LEFT BLANK

Executive Summary

Background

In Fiscal Year 2019-20, Internal Audit Division performed a consulting engagement upon the request of Social Services Agency management to evaluate business processes and identify potential risk areas within their Public Administrator/Guardian/Conservator Office who provides services on behalf of vulnerable residents in Santa Clara County. We identified 123 existing internal controls, 56 potential risk areas and provided management with 25 suggested actions to improve internal controls and mitigate the likelihood of errors or losses. During the engagement, we did not perform testing procedures or validate information provided.

Objective

We performed this audit to (1) verify if critical internal controls identified in the previous consulting engagement of PAGC processes are in place and operating effectively to account for and manage client assets; and (2) determine PAGC's compliance with applicable laws, regulations, and County policies.

Scope

The audit scope included management operations from July 1, 2018, to November 30, 2021, and was limited to the following six areas: (1) Assets Taken to Storage, (2) Donation of Assets, (3) Receiving of Assets, (4) Spending of Assets, (5) Disposal, Distribution and Liquidation of Assets, and (6) Income Tax Return Process.

What We Found

Social Services Agency's (SSA) Public Administrator/Guardian/Conservator (PAGC) generally has good internal controls over the management of client assets and complies with applicable laws, regulations, and County policies associated with providing services on behalf of vulnerable residents in Santa Clara County. To further strengthen current controls and improve their effectiveness, Internal Audit Division (IAD) identified 19 improvements in five of the six audited areas summarized below and detailed in the ***Findings and Recommendations*** section of this report.

Assets Taken to Storage area has the following five findings:

- Condition of Items Stored in PAGC Warehouse
- Overcharging of Storage Fees
- Financial Burden of Overcharged Storage Fees
- Physical Inventory Verification Procedures Not Followed
- Physical Inventory Verification - Dual Controls Not Performed

Donation of Assets area has the following one finding:

- Donation of Assets Process

Spending of Assets area has the following four findings:

- True Link Card Supporting Documentation
- Inconsistency of the Payment Review and Approval Process
- Petty Cash Transaction Approvals
- Duplicate Payments

Disposal, Distribution, and Liquidation of Assets areas has the following one finding:

- Signature Authorization Process

The Income Tax Return Process area has the following eight findings:

- Obsolete Tax Unit Standards and Procedures
- Accuracy and Completeness of Clients' Tax Returns
- Limited Tax Unit Staffing
- No Segregation of Duties
- Lack of an Effective Tax Planning Process
- Timeliness of Tax Return Filings
- Interest Income Reporting Period
- Economic Impact (Stimulus) Payment Reporting

Executive Summary

The below chart summarizes risk categories for each area audited as high, medium, or low.

Assessment of Risk by Areas Audited

Summary of Findings					
#	Area	High	Medium	Low	Total
1	Assets Taken to Storage	2	3	-	5
2	Donation of Assets	-	-	1	1
3	Spending of Assets	4	-		4
4	Disposal, Distribution, and Liquidation of Assets	-	-	1	1
5	Income Tax Return Process	5	2	1	8
Total Findings		11	5	3	19

See **Appendix # 1** for definition of each risk category.

Prior to issuance of this report, SSA management proactively updated or created numerous policies and procedures to improve internal controls and address findings noted in this report. PAGC also communicated their improvement plan to staff.

This audit was included as part of IAD's approved FY 2021-22 Annual Workplan and Risk Assessment. We conducted the audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Our report is designed to assist SSA and provide constructive recommendations for improving their operations. As a result, the report generally does not address activities reviewed that are functioning effectively. The draft report was discussed with SSA management in January 2022. Attached herein is the department's formal response. In accordance with professional auditing standards, IAD intends to perform a follow-up audit on the recommendations once implemented.

It is anticipated that this report will be submitted to the Finance and Government Operations Committee in Summer 2022. This report is intended solely for the County and its stakeholders. However, this report is a matter of public record, and its distribution is not limited.

We would like to thank the management and staff of SSA for their time, cooperation, and assistance during this audit.



Robyn Rose, CPA, CICA
Internal Audit Manager
May 19, 2022

Table of Contents



EXECUTIVE SUMMARY.....	1-2
FINDINGS AND RECOMMENDATIONS:	
FINDING 1 - CONDITION OF ITEMS STORED IN PAGC WAREHOUSE.....	4
FINDING 2 - OVERCHARGING OF STORAGE FEES.....	5
FINDING 3 - FINANCIAL BURDEN OF OVERCHARGED STORAGE FEES.....	6-7
FINDING 4 - PHYSICAL INVENTORY VERIFICATION PROCEDURES NOT FOLLOWED.....	8-9
FINDING 5 - PHYSICAL INVENTORY VERIFICATION - DUAL CONTROLS NOT PERFORMED.....	10
FINDING 6 - DONATION OF ASSETS PROCESS.....	11
FINDING 7 - TRUE LINK CARD SUPPORTING DOCUMENTATION.....	12
FINDING 8 - INCONSISTENCY OF THE PAYMENT REVIEW AND APPROVAL PROCESS.....	13
FINDING 9 - PETTY CASH TRANSACTION APPROVALS.....	14
FINDING 10 - DUPLICATE PAYMENTS.....	15
FINDING 11 - SIGNATURE AUTHORIZATION PROCESS.....	16
FINDING 12 - OBSOLETE TAX UNIT STANDARDS AND PROCEDURES.....	17
FINDING 13 - ACCURACY AND COMPLETENESS OF CLIENTS' TAX RETURNS.....	18
FINDING 14 - LIMITED TAX UNIT STAFFING.....	19
FINDING 15 - NO SEGREGATION OF DUTIES.....	20
FINDING 16 - LACK OF AN EFFECTIVE TAX PLANNING PROCESS.....	21-22
FINDING 17 - TIMELINESS OF TAX RETURN FILINGS.....	23-24
FINDING 18 - INTEREST INCOME REPORTING PERIOD.....	25
FINDING 19 - ECONOMIC IMPACT (STIMULUS) PAYMENT REPORTING.....	26
APPENDIX 1: DEFINITION OF RISK CATEGORIES AND PRIORITY LEVELS	27
APPENDIX 2: INTERNAL CONTROLS FRAMEWORK	28
APPENDIX 3: PROGRAM BACKGROUND AND METHODOLOGY	29-30
MANAGEMENT'S RESPONSES	

Findings and Recommendations

ASSETS TAKEN TO STORAGE

FINDING #1: Condition of Items Stored in PAGC Warehouse	
OBJECTIVE	To determine reasonableness of storage fees and condition of items stored.
CRITERIA	PAGC Policy (Policy) 546.2 "Disposing of Estate Personal Property of No Value"
FINDING	<p>During our audit, we noted two of 11 clients selected for testing were placed in locked mental facilities for 18 and 20 years, respectively. These clients had items with no value stored in PAGC's warehouse that were not adequately examine by PAGC personnel to determine if the items should be either transferred to the facility or disposed. For example, one client had seven bags/suitcases of clothes and one sleeping bag, while the second client had one box of clothes.</p> <p>Based on our observation, the items should have been disposed of due to their poor condition. When inventory of no-value property is not reviewed, evaluated for obsolescence, and timely updated in PAGC's case management system (PANO), there is an increased risk of improper charges applied to clients' accounts.</p> <p>After inquiry with PAGC, both client's belongings were donated in September 2021 and February 2021, respectively, and disposition status updated in PANO.</p>
RECOMMENDATIONS	<p>1.1 PAGC should comply with Policy 546.2 "Disposing of Estate Personal Property of No Value" to ensure the Estate Property Specialist (EPS) timely examines all personal property and use their judgment to determine if the personal property is (a) unusable due to its poor condition, (b) poorly broken or soiled, and if (c) the cost of storing the property is more or less than its value or should be disposed to avoid unnecessary items being stored in PAGC's warehouse.</p> <p>1.2 Policy 546.2 should be cross-referenced to Policy 816, "Property Storage Fees", referencing a list of client items kept in PAGC's warehouse.</p> <p>1.3 PAGC should update Policy 546.2 to include procedures for collecting, tracking, and transferring items to outside facilities, when applicable, to reduce a payment burden for unnecessary storage fees.</p>
ASSESSED RISK RATING/PRIORITY	Medium Level/ Priority 2
EXPECTED COMPLETION DATE	Within three to six months after issuance of the final audit report

Findings and Recommendations

FINDING #2: Overcharging of Storage Fees	
OBJECTIVE	To ensure the value of storage fees charged to the client does not exceed the value of property stored in the warehouse and locked room.
CRITERIA	Policy 816.0 "Property Storage Fees", Section 3.1, states that the Deputy Public Guardian/Conservator (DPGC) and Estate Administrator (EA) quarterly re-evaluates storage fees charged to all client accounts to determine if the stored property's value, including sentimental value, exceeds the monthly payments and adjusts their accounts in PANO accordingly.
FINDING	During our audit, we noted PAGC periodically charged storage fees to the two clients referenced in Finding #1 for no-value items kept in PAGC's warehouse from March 2019 to January 2021. One client incurred \$299.50 in storage fees, while the second client was charged \$347 in standard and deferred storage fees. As a result, total storage fees charged to these clients exceeded the estimated value of their property, which resulted in unnecessary storage fees applied to their accounts.
RECOMMENDATIONS	<p>PAGC should complete the following actions:</p> <p>2.1 Periodically review storage fee charges applied to customer accounts and compare the total costs against the estimated inventory value for stored items, as required by Policy 816.0 "Property Storage Fees," Section 3.1.</p> <p>2.2 Align Section 3.1 of Policy 816.0 with Section 5.1(b) of Policy 546.2 by synchronizing actions for the quarterly review of storage fees charged and personal property examination during annual inventory.</p>
ASSESSED RISK RATING/ PRIORITY	High Level/ Priority 1
EXPECTED COMPLETION DATE	Within one to three months after issuance of the final audit report

Findings and Recommendations

FINDING #3: Financial Burden of Overcharged Storage Fees	
OBJECTIVE	To ensure all charges applied to clients' accounts are valid.
CRITERIA	<p>Policy 816.0 "Property Storage Fees," Section 5.5, states that the Property Clerk (PC) should timely cancel or reduce storage fees by updating the client's account in PANO as soon as the Property Action Request Form is approved to dispose of the property and items are physically removed from storage.</p> <p>Policy 555.0 "Property Action Request," Section 5.5, stated that Staff completes action noted on the Property Action Request Form on time.</p>
FINDING	<p>During our audit, we noted one of 11 clients selected for testing incurred storage fees after their property was physically removed from the warehouse and locked room. PAGC verified the deceased client's physical inventory in February 2019, and the Property Action Request Form was updated in May 2019 to reflect the sale, disposal, or release of property. However, SSA management erroneously charged the decedent \$320 in storage fees from June 2019 through July 2020.</p> <p>In August 2021, Financial Management Services (FMS) reversed the \$320 storage fees in PANO based on IAD's recommendation. Unfortunately, the decedent's assets were already distributed to her heirs. SSA Management decided to create a bill and charged the client \$300 for management's time to "research and correct" their error and close the case, instead of determining allocation percentages for each heir.</p> <p>Even though the overcharged storage fees were due to internal error, SSA Management stated the time and effort required to reopen the case outweighed the benefit of distributing the remaining funds to heirs.</p>

Findings and Recommendations

FINDING #3: Financial Burden of Overcharged Storage Fees (continued)	
RECOMMENDATIONS	<p>To strengthen storage fees controls, PAGC and FMS should:</p> <p>3.1 Improve communication between FMS and PAGC personnel to ensure actions stated on the client's Property Action Request Form are timely executed.</p> <p>3.2 PAGC personnel should comply with Policy 816 "Property Storage Fees," Section 5.5 and Policy 555.0 "Property Action Requests", Sections 5.5 by ensuring PC receives the Property Action Request Form shortly after items are physically removed from storage and timely cancel or reduce storage fees charged against a client's account to prevent the possibility of overcharges.</p> <p>3.3 PAGC should align Section 5.5 of Policy 816.0 with Policy 555.0 by specifying a timeline for the requestor, PC, and approver to take actions on the Property Action Request Form.</p> <p>3.4 Management should reinforce these policies through training.</p>
ASSESSED RISK RATING/PRIORITY	Medium Level/Priority 2
EXPECTED COMPLETION DATE	Within three to six months after issuance of the final audit report

Findings and Recommendations

FINDING #4: Physical Inventory Verification Process Not Followed	
OBJECTIVE	Inventory verification process to verify the existence of property in the Warehouse or Locker room is performed correctly, as the Policy requires.
CRITERIA	<p>Policy 510.0 "Physical Inventory Verification" Section 5.0 states that the property verification for the locked room and warehouse must be completed one time per fiscal year from January to April and the PC enters verified data in PANO by end of the fiscal year.</p> <p>Section 5.2 states that two staff members must be present to verify each property/asset and record in the Client Physical Inventory Report.</p> <p>Section 5.8 stated that the PC should record the physical verification date in PANO for each inventory item verified, scan the Client Physical Inventory Report and any supporting documentation in PANO, and enter data that PAGC completed the physical inventory verification and make necessary changes to the client/estate inventory.</p>
FINDING	<p>During our audit, we noted the physical verification process for one of 11 clients selected for testing was inadequate. Two high-risk items (guns) listed on the client's 2020 Client Physical Property Report were marked as verified by two PAGC personnel in November 2020; however, the items were already distributed in October 2020.</p> <p>The guns were kept in a secured cabinet in the locked room with limited personnel access. Per inquiry with PAGC management, staff performing the inventory verification did not have access to the gun cabinet and used the list posted outside the cabinet to verify. The list was not timely updated with changes from the previous month because the client's inventory status for both guns was changed to "Distributed" in PANO in May 2021, after the Auditor-in-charge discovered the oversight.</p> <p>When items listed on the Client Physical Inventory Report are not factually verified by PAGC personnel during the annual verification process, there is a risk that items removed from storage no longer exist.</p>

Findings and Recommendations

FINDING #4: Physical Inventory Verification Process Not Followed (continued)	
RECOMMENDATIONS	<p>4.1 DPGC/EA should follow Policy 510.0 "Physical Inventory Verification" to ensure all items listed on the Client Physical Property Report are verified during the annual inventory verification process to confirm all items under PAGC custody are intact and timely research any discrepancies identified.</p> <p>4.2 PAGC should update Policy 510.0 to clearly define who is accountable for ensuring the inventory verification process is adequately conducted and outline the roles/responsibilities of employees involved in the process.</p> <p>4.3 When applicable, ensure PAGC staff with access to high-risk items (i.e., guns, knives, and other weapons) are also present during the physical verification process to ensure each item is correctly accounted for and ensure effective oversight.</p> <p>4.4 Property Clerk should follow Section 5.8 of Policy 510.0 by recording the physical verification date in PANO and timely updating the status of each item verified to reflect the correct information.</p> <p>4.5 Section 5.0 of Policy 510.0 should be revised to state that all changes to the client's property status based on actual verification are updated in their account before the next storage fee billing cycle to avoid possible overcharging the client.</p>
ASSESSED RISK RATING/ PRIORITY	Medium Level/ Priority 2
EXPECTED COMPLETION DATE	Within three to six months after issuance of the final audit report

Findings and Recommendations

FINDING #5: Physical Inventory Verification - Dual Controls Not Performed	
OBJECTIVE	To determine if property stored in PAGC's warehouse and locked room were physically verified under dual custody, as required by Policy 510.0.
CRITERIA	Policy 510.0 "Physical Inventory Verification," Section 5.2 states that two staff members must be present to verify each property/asset and record status of each item on the Client Physical Inventory Report. After the property is confirmed, it will be reviewed and approved by the assigned EA and/or DPGC (depending on the item).
FINDING	<p>During our audit, we did not find evidence of the physical verification process performed under dual control for two of 11 clients selected for testing (Client 1 and Client 2) as only one staff member signed the Client Physical Inventory Report. Additionally, one of the forms (Client 1) did not have evidence of review and approval by the assigned EA and/or DPGC, while the second form (Client 2) was reviewed and approved five months after the inventory verification date.</p> <p>Current practice is insufficient to ensure all client property/assets are effectively managed and protected. There is a risk that items in PAGC's custody are not reflected correctly in PANO because the inventory verification is not performed under dual control or timely verified by management for accuracy.</p>
RECOMMENDATIONS	<p>PAGC should complete the following actions:</p> <p>5.1 Follow Policy 510.0 "Physical Inventory Verification," Section 5.2, to ensure two staff members are present during the inventory verification process and each item's existence is physically verified.</p> <p>5.2 Ensure the inventory verification report is reviewed and approved by assigned DPGC/EA shortly after the verification date, as required by Section 5.0 of Policy 510.0.</p>
ASSESSED RISK RATING/PRIORITY	High Level/ Priority 1
EXPECTED COMPLETION DATE	Within one to three months after issuance of the final audit report

Findings and Recommendations

DONATION OF ASSETS

FINDING #6: Donation of Assets Process	
OBJECTIVE	To evaluate if critical controls exist for clients' donated property and comply with Policy 534.0.
CRITERIA	Policy 534.0 "Stage III: Sell, Donate and Discard Property"
FINDING	<p>Due our audit, we noted three clients selected for testing did not have photos of donated items or an itemized list with descriptions when donated as a batch. One client had pictures of one donated item (a brown leather couch) that looked in good condition to sell. However, we could not find any evidence in PANO of the item's estimated value, review, internal discussion, or other actions to support the decision to donate vs. sell.</p> <p>In addition, Policy 534.0 does not include information determining which items PAGC should be donated, discarded, or sold based on its condition or other value (i.e., sentimental value).</p> <p>The lack of adequate supporting documentation or formalized process for donated items increases the risk for errors or misappropriation.</p>
RECOMMENDATIONS	<p>6.1 To ensure adequate controls over donated items, we recommend PAGC revise Policy 534.0, "Stage III Sell, Donate and Discard Property," to include PAGC completing a donation checklist that identifies what steps must be achieved before donation. Items on the checklist should require supporting documentation for all donated items. For example, documented evidence of the estimation value, photos, reviewer signature, internal discussion notes, or other actions to support the donation decision. Two independent employees should also prepare and sign the information for proper segregation of duties.</p> <p>6.2 To comply with IRS requirements for a donation tax deduction, if applicable for a client, the checklist should include the following:</p> <ul style="list-style-type: none"> • Name and address of the qualified organization receiving the donated property. • Date and location of the charitable contribution. • A description of the property in sufficient detail depending on the circumstances. For example, a personal computer should be described in more detail than household pots and pans.
ASSESSED RISK RATING/PRIORITY	Low Level/ Priority 3
EXPECTED COMPLETION DATE	Within six to 12 months after issuance of the final audit report

Findings and Recommendations

SPENDING OF ASSETS

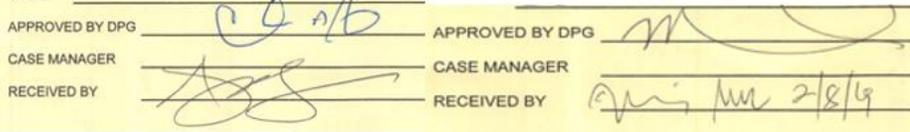
FINDING #7: True Link Card Supporting Documentation	
OBJECTIVE	To ensure payments made for monthly needs and expenses are adequately supported.
CRITERIA	Policy 825.0 “True Link Services ¹ ”, Section 3.0 states that DPGCs should electronically monitor client’s monthly spending by reviewing transaction history monthly. If a vendor/caregiver is responsible for purchases with the card, they are required to submit to the assigned DPGC/EA (for Trusts) all monthly receipts pertaining to expenses incurred by the Conservatee during the calendar month.
FINDING	<p>During our audit, we noted three of nine clients selected for testing had True Link cards as a resource to use for their monthly spending allowance. For the period July 2018 through June 2020, the total amount spent for the three clients without any supporting documentation was \$43,525,84.</p> <p>DPGCs monitor the True Link card ledgers for unusually large purchases; however, they do not ask for monthly receipts to verify if the charge was correct and solely made on behalf of the client. As a result, there is a high risk of improper charges applied to the client's card.</p>
RECOMMENDATIONS	<p>To strengthen controls over True Link card transactions, PAGC should:</p> <p>7.1 Update Policy 825.0 “True Link Services” by providing guidance on duties to be performed by personnel responsible for monitoring True Link cards within a specific timeframe to ensure possible inadequate charges are timely detected and prevented.</p> <p>7.2 Ensure all True Link card transactions are reviewed to ensure the cards are used in accordance with applicable rules and requirements.</p> <p>7.3 Reconcile all True Link card transactions for accuracy, validity, and ensure adequate supporting documentation necessary to justify each expense is uploaded to PANO.</p>
ASSESSED RISK RATING/PRIORITY	High Level/ Priority 1
EXPECTED COMPLETION DATE	Within one to three months after issuance of the final audit report

¹ True Link Services is a program benefitting high functioning conservatees in independent settings. True Link is a financial services company that protects vulnerable individuals from becoming victims of fraud, scams, and exploitation. The True Link card can simplify fund distribution and save time by reducing administrative tasks for PAGC personnel.

Findings and Recommendations

FINDING #8: Inconsistency of the Payment Review and Approval Process	
OBJECTIVE	To determine if invoices are properly reviewed and approved prior to payment.
CRITERIA	<p>Policy 115 “Bill Approval-Check Requests”, Section 3.2, stated that bills over \$2,500 require approval by Social Services Program Manager, and bills over \$10,000 require approval by Chief Deputy PAGC.</p> <p>Policy 117 “Bill Approval-Accounts Payable and Late Fees”, states that when bills are under \$2,500, payment should be approved by the respective PAGC staff.</p> <p>Policy 116 “Bill Approval-Recurring Auto Payments”, states that bills paid through the Conservatorship and Trust will require EA's approval in PANO.</p>
FINDING	<p>During our audit, we noted some invoices were reviewed and approved via e-mail, DocuSign, handwritten or signature stamps. However, five of nine clients selected for testing had invoices that were electronically approved in PANO but did not have physical evidence of being reviewed and approved before payment. Total payments selected for testing for the period July 1, 2018, to June 30, 2020, were \$1,776,420.49. Of this amount, \$97,566.28 (5.5%) did not have physical evidence or other forms of approval.</p> <p>We acknowledge there are benefits to having built-in system workflows in PANO; however, without sufficient evidence of review and approval prior to issuance, there is a risk of improper payments made from client’s account such as a duplicate vendor payment (see Finding #10 below for detail).</p>
RECOMMENDATIONS	<p>8.1 FMS and PAGC should develop and implement a policy stating that staff should ensure invoices are reviewed and approved by authorized individuals prior to payment. Physical evidence such as a manual or electronic signature provides greater assurance that an invoice is properly reviewed and approved. For instances when manual or electronic signatures cannot be obtained, management should make workflow approvals easily visible in PANO to show evidence of authorized approvals and avoid potential improper or duplicate payments.</p> <p>8.2 The new policy should be communicated to staff through training.</p>
ASSESSED RISK RATING/PRIORITY	High Level/ Priority 1
EXPECTED COMPLETION DATE	Within one to three months after issuance of the final audit report

Findings and Recommendations

FINDING #9: Petty Cash Transaction Approvals	
OBJECTIVE	To ensure petty cash payments made to clients are properly supported and valid.
CRITERIA	Policy 112 "Imprest Funds and Petty Cash" address appropriate uses of petty cash funds. Section 3.0 states petty cash funds are to be used for emergencies only and strictly for the client's benefit. The maximum preapproved amount given to a client at any one time is \$50 with supervisor approval and \$100 with supervisor and manager approval. Requests over \$100 must use Imprest funds, which require a payment request.
FINDING	<p>During our audit, we noted one of two clients tested with petty cash transactions had two payments of \$50 that did not have adequate approval documentation. Staff scanned two petty cash receipts into PANO, but we could not verify if the client or an authorized person approved the payments and received the funds. Signatures of the receiver are different on both receipts, and we could not determine if the client, who is mentally unstable, signed for and received the funds directly or delegated responsibility for someone else to pick-up, sign, and receive his checks. There is also no printed first and last name of the approver, so we could not initially determine who authorized the transaction (see example below).</p>  <p>Without sufficient evidence of review and approval before issuing petty cash payments, there is a risk of improper payments made from client accounts.</p>
RECOMMENDATIONS	9.1 PAGC should update existing Policy 112 "Imprest Funds and Petty Cash" to state that the person receiving emergency funds and the authorized approver must also print their first and last name on the petty cash receipt to clearly document evidence of receipt and review.
ASSESSED RISK RATING/PRIORITY	High Level/ Priority 1
EXPECTED COMPLETION DATE	Within one to three months after issuance of the final audit report

Findings and Recommendations

FINDING #10: Duplicate Payments	
OBJECTIVE	To ensure PAGC has processes in place to prevent and detect duplicate payments.
CRITERIA	Policy 771 "Use of County Credit Card for Conservatee Purchases (including Probate Ongoing)" Policy 117 "Bill Approval-Accounts Payable and Late Fees"
FINDING	<p>During our review of one client's monthly payments, we noted FMS made two equal payments of \$486.95 on 9/16/2019 and 10/03/2019, respectively, for the same invoice. The first payment was made using PAGC's credit card and the second was paid through the normal payment process. We also noted FMS did not have comprehensive written procedures for reviewing a client's account in PANO before processing invoices to detect and prevent potential duplicate payments.</p> <p>The duplicate payment went undetected by staff for over two years until discovered by the Auditor in-charge and referred to FMS management. FMS confirmed the duplicate payment and immediately initiated corrective actions.</p>
RECOMMENDATIONS	<p>To strengthen payment controls, FMS and PAGC should:</p> <p>10.1 Review client's account in PANO prior to processing invoices to ensure amount was not previously paid to prevent duplicate payments.</p> <p>10.2 Ensure updates to Policy 117 "Bill Approval Accounts Payable and Late Fees" and Policy 771 "Use of County Credit Card for Conservatee Purchases" reflects the need to review client's account in PANO for possible duplicate payment prior to issuing payment, covers the adjustment process, and establish monitoring procedure to periodically review payments for appropriateness.</p> <p>10.3 The updated policies should be communicated to staff through training.</p>
ASSESSED RISK RATING/PRIORITY	High Level/ Priority 1
EXPECTED COMPLETION DATE	Within one to three months after issuance of the final audit report

Findings and Recommendations

DISPOSAL, DISTRIBUTION and LIQUIDATION of ASSETS

FINDING #11: Signature Authorization Process	
OBJECTIVE	To determine if the distribution of clients' assets were properly authorized.
CRITERIA	U.S. Government Accountability Office's "Standards of Internal Controls in the Federal Government ("Green Book")", Principle 10 states in part that management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities.
FINDING	<p>During our audit, we reviewed various documents such as invoices, client physical inventory verifications, real property sales action requests, bank card purchase requests, and property action requests. We noted many forms and requests were signed without a printed first or last name and title. As a result, we could not verify if the person who signed the document(s) had proper authorization.</p> <p>Per SSA management, each Deputy is responsible for their caseload and approving invoices and bills on behalf of their clients; however, we could not verify any outlined responsibilities between deputies, managers, and supervisors for each level based on maximum dollar amount thresholds. In addition, the Estate Administrator approves bills for their assigned clients' estate such as homeowners' insurance or Homeowners Association dues.</p>
RECOMMENDATIONS	<p>11.1 SSA Management should create and maintain a Signature Authorization List of all deputies, managers, and supervisors authorized to approve invoices, payments requests, property action requests, and other documentation on behalf of their clients.</p> <p>11.2 SSA Management should develop and implement a policy that establishes a clear understanding and outlines responsibilities between deputies, managers, and supervisors for each level based on maximum dollar amount thresholds (per transaction).</p> <p>11.3 FMS uses the Signature Authorization List to verify the propriety of signatures, as needed.</p> <p>11.4 FMS accounting staff review the Signature Authorization List before processing payments by comparing signature on the authorized list to signature on the payment request.</p> <p>11.5 PAGC management should periodically review and update the signature authorization list.</p>
ASSESSED RISK RATING/PRIORITY	Low Level/ Priority 3
EXPECTED COMPLETION DATE	Within six to 12 months after issuance of the final audit report

Findings and Recommendations

INCOME TAX RETURN PROCESS

FINDING #12: Obsolete Tax Unit Standards and Procedures	
OBJECTIVE	To determine if policies and procedures relevant to the tax return preparation, approval and filing processes exist and have been timely updated.
CRITERIA	PAGC "Tax Unit Standards & Procedures"
FINDING	<p>Per review of PAGC's "Tax Unit Standards & Procedures", we noted the procedures has not been updated since May 7, 2014, to reflect recent changes to tax laws/regulations and Tax Unit operations. As a result, there is high-risk current operational processes are not congruent with the latest authoritative guidance.</p> <p>In addition, responsibility for periodically reviewing and updating the policy have not been outlined at the departmental level. Specifically, some areas in the policy requiring an update are the following: 1) number of employees currently in the Tax Unit, 2) tax software used for preparing and filing tax returns, 3) individual(s) authorized to approve tax returns, and 4) frequency of updating the policy to incorporate tax law changes.</p>
RECOMMENDATIONS	<p>12.1 FMS should formally designate which position will be responsible for timely reviewing and updating the Tax Unit Standards & Procedures to reflect current tax laws/regulations and critical internal controls.</p> <p>12.2 The updated procedures should be communicated to staff through training.</p>
ASSESSED RISK RATING/PRIORITY	High Level/ Priority 1
EXPECTED COMPLETION DATE	Within one to three months after issuance of the final audit report

Findings and Recommendations

FINDING #13: Accuracy and Completeness of Clients' Tax Returns	
OBJECTIVE	To ensure information included on client's tax returns are accurate, complete, and properly supported.
CRITERIA	PAGC "Tax Unit Standards & Procedures" states that all individual tax returns (Federal and State) are due by April 15 th or October 15 th with extension. The procedures also require the Tax Specialist (TS) to obtain a list of new probate cases monthly and initiate the collection of relevant tax documentation from the EA within two days.
FINDING	<p>Per review of PAGC's "Tax Unit Standards & Procedures", we noted the procedures are silent the following critical processes: 1) deadlines when the EA is required to respond to the TA's request for tax documentation, 2) when the TS initiates and completes the process of obtaining important tax information from other sources (i.e., preparing the power of attorney form, requesting prior-year tax transcripts), and 3) TS determining a course of action based on review of available documentation.</p> <p>In addition, we noted the procedures include information on when individual tax return is due (by April 15th or October 15th with an extension); however, there is no statement specifying a requirement to meet these deadlines or process to request an exception from management when deadlines cannot be met. As a result, there is a higher risk of clients incurring tax penalties and fees for Tax Unit failing to file their return timely and accurately (see Finding # 17 for details).</p>
RECOMMENDATIONS	<p>13.1 FMS should revise the "Tax Unit Standards & Procedure" to include deadlines for the following actions:</p> <ul style="list-style-type: none"> • Estate Administrator requirement to respond to Tax Specialist's inquiry, • When tax returns are required to be filled, based on complexity and availability of required tax information, and • If IRS filing deadlines cannot be met, also include the process the Tax Specialist must follow to request an extension prior to filing deadlines.
ASSESSED RISK RATING/PRIORITY	High Level/ Priority 1
EXPECTED COMPLETION DATE	Within one to three months after issuance of the final audit report

Findings and Recommendations

FINDING #14: Limited Tax Unit Staffing	
OBJECTIVE	To determine if current Tax Unit staffing levels adequately reflects the output volume for all tax returns filed each year and to ensure the returns are filed timely, accurately and provide the best tax position for each client.
CRITERIA	PAGC "Tax Unit Standards and Procedures", Section 1.2 states that that The Tax Unit, under the supervision of the FMS Welfare Finance Manager, is comprised of three full-time Tax Specialists.
FINDING	<p>During our audit, we noted the Tax Unit's workload significantly increased between tax years 2018 and 2020, while the number of employees working on tax returns decreased from three to one full-time employee and part-time employee. There were 154 tax returns filed for calendar year 2018 and increased to 372 filed in 2020, or 241%. The total number of tax returns filed in calendar year 2020 did not include returns that were not prepared or filed due to extension or delays.</p> <p>Per IRS Guidance, the estimated average time for a tax preparer to complete and file one Individual Tax Return Form-1040 or Estate Tax Return Form-1041 and related schedules ranges from 12 to 48 hours depending on individual circumstances. Based on these estimates, essentially 4,464 to 17,856 hours were needed to complete and file 372 tax returns. The current level of staffing is exceptionally low compared with the significant increase in workload and industry standards.</p> <p>Since current tax laws & regulations are expected to remain in effect for the foreseeable future, the volume of tax returns to be filed is not likely to decrease. Based on the Tax Unit's current staffing level, there is a high probability that clients, already vulnerable due to their life circumstances, will have unfavorable tax consequences.</p>
RECOMMENDATIONS	<p>14.1 FMS and PAGC should perform a cost-benefit analysis to decide on the following options:</p> <ul style="list-style-type: none"> • Increase Tax Unit's staffing level to match the increased level of tax planning and preparation or • Outsource the tax return preparation responsibilities to an outside CPA firm, which reduces PAGC's risk of not preparing tax returns timely, properly resulting in clients incurring penalties and fees. • If an outsourcing option is pursued, the Tax Unit's workload should focus on preparing necessary documentation for the CPA firm on behalf of clients and reviewing completed tax returns prior to filing.
ASSESSED RISK RATING/PRIORITY	High Level/ Priority 1
EXPECTED COMPLETION DATE	Within one to three months after issuance of the final audit report

Findings and Recommendations

FINDING #15: No Segregation of Duties	
OBJECTIVE	To ensure the duties of preparing, reviewing, and approving tax returns are adequately segregated.
CRITERIA	PAGC "Tax Unit Standards & Procedures", Section 3.3 states in part that once the tax return is finalized by the Tax Specialist, it should be reviewed by another Tax Specialist or individual authorized to practice before the Internal Revenue Service to assure accuracy of the return.
FINDING	During the tax years 2018, 2019 and 2020, we noted essentially only one person prepared, reviewed, approved, and filed and resolved disputes for individual and estate tax returns. This staffing level precluded the necessary segregation of duties for the preparation, review, and processing of tax returns to ensure they were filed timely, accurately and present the best tax position for each client. When these duties are not adequately segregated, the risk of errors, imposed penalties, and possible negative tax consequences for clients is undesirably high.
RECOMMENDATIONS	<p>PAGC and FMS must perform the following actions to strengthen control over the tax return preparation process:</p> <p>15.1 Segregate the duties between tax return preparation, review, and approval.</p> <p>15.2 Segregate the responsibility of resolving tax disputes with tax authorities to ensure all errors, fines, and penalties are independently tracked and fixed for the client's benefit.</p>
ASSESSED RISK RATING/PRIORITY	High Level/ Priority 1
EXPECTED COMPLETION DATE	Within one to three months after issuance of the final audit report

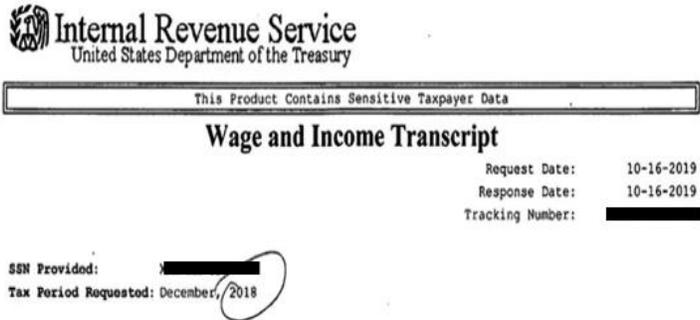
Findings and Recommendations

FINDING #16: Lack of an Effective Tax Planning Process	
OBJECTIVE	The tax Unit utilizes proper tools to ensure the completeness and accuracy of each tax return to plan for filing the return correctly.
CRITERIA	<p>PAGC "Tax Unit Standards and Procedures", Section 3.1 "Information Document Request" and Section 3.3 "Tax Return Preparation"</p> <p>IRS Publication 501 "Dependents, Standard Deduction, and Filing Information"</p> <p>"Green Book" Principle 10 states in part that management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk.</p>
FINDING	<p>The current tax planning process is not coordinated with other units within PAGC/FMS to ensure timely and accurate updates for clients' changing tax situations, including changes in filing status. Additionally, the Tax Unit does not utilize a comprehensive Tax Planning Checklist to compile client information, complete list of financial records, sources of income, and incurred expenses or deductions to properly support the completeness and accuracy of clients' tax returns.</p> <p>During our audit, we noted one of five clients selected for testing did not have the correct filing status reflected on his individual tax return. The 2018, 2019 and 2020 tax returns were filed as 'Single' filing status even though the client was married. The inaccurate filing status reported for three tax years put the client in a higher tax bracket and subsequently created an adverse tax position. These tax returns should be amended to reflect the correct filing status and determine additional tax obligations or refund owed to the client.</p> <p>The lack of coordination within PAGC/FMS and absence of a comprehensive Tax Planning Checklist to compile all relevant information increases the risk of errors resulting in unfavorable tax consequences for clients.</p>

Findings and Recommendations

FINDING #16: Lack of an Effective Tax Planning Process (continued)	
RECOMMENDATIONS	<p>16.1 FMS and PAGC should develop and implement a collaborative information exchange between functions to identify all changes in clients' filing status and other life events impacting their tax situation and apply the updates accordingly.</p> <p>16.2 PAGC and FMS should create a comprehensive Tax Planning Checklist to properly account for and compile all clients' documentation relevant to the preparation of tax returns. The checklist should include each client's personal information, sources of income, expenses/deductions, and gains/losses on sale of real estate or investments. The checklist should also account for life-changing events that can have significant tax consequences for the clients such as filing status, death or unusually circumstances.</p> <p>16.3 Consider outsourcing or contracting with a CPA firm or tax expert to consult on complex tax matters (also see Findings #14 above).</p>
ASSESSED RISK RATING/PRIORITY	Medium Level/ Priority 2
EXPECTED COMPLETION DATE	Within three to six months after issuance of the final audit report

Findings and Recommendations

FINDING #17: Timeliness of Tax Return Filings	
OBJECTIVE	To ensure all tax returns are related tax obligations are filed and paid timely to prevent penalties and late fees being assessed.
CRITERIA	IRS and California Franchise Tax Board (FTB) tax law requirements
FINDING	<p>PAGC and Tax Unit work together to meet required income tax filing deadlines and avoid penalties and interest, when possible. However, based on our observation, we noted two of five instances when tax obligations were not paid by the IRS and FTB established due dates.</p> <p>In one example, the Tax Unit filed a client's 2020 individual income tax return late without previously filing an extension. As a result, the client may incur penalties and interest on the \$2,369 owed to the IRS.</p> <p>In another example, the Tax Unit prepared and submitted a Probate (deceased) client's 2018 individual income tax return in December 2019, after the October 15th filing extension deadline, which resulted in the IRS and FTB imposing penalties and interest of \$305.01 and \$95.70, respectively. These amounts were paid from the client's estate. Santa Clara County Superior Court referred the decedent's estate to PAGC in March 2019, which had an estimated value of \$1.6 million. With a large, estimated estate value, it was evident that a 2018 income tax return needed to be prepared. The IRS accepts request for prior year returns starting August 2nd.</p> <p>Unfortunately, Tax Unit did not timely submit the Wage and Income Transcript from the IRS (Form 4506-T "Request for Copy of Tax Return") to obtain information on the decedent's previous years' tax filings, which resulted in the late filing and assessed penalties and interest. The Tax Unit submitted Form 4506-T "Request for Copy of Tax Return" on October 16th and the IRS responded on the same day (see example below).</p> <div style="text-align: center;">  </div> <p>PAGC and FMS can decrease penalties and interest paid from client funds by timely requesting information from the IRS and paying tax obligations before established due dates.</p>

Findings and Recommendations

RECOMMENDATIONS	<p>17.1 Develop and outline a process to prioritize timely tax payments to avoid the risk of significant penalties, interest, and late fees unfairly imposed on the clients.</p> <p>17.2 Develop mandatory deadlines and establish clear responsibilities to ensure tax obligations are paid timely and eliminate the risk of taxing authorities imposing penalties and late fees on clients.</p> <p>17.3 Perform an annual study and analysis of tax returns filed late to determine the root cause of late filings and related penalties and interest. Internal processes should be improved based on results of the study to reduce the likelihood of future occurrence.</p> <p>17.4 Management should train employees on the new process.</p>
ASSESSED RISK RATING/PRIORITY	High Level/ Priority 1
EXPECTED COMPLETION DATE	Within one to three months after issuance of the final audit report

Findings and Recommendations

FINDING #18: Interest Income Reporting Period																								
OBJECTIVE	All taxable and exempt income is timely reported in the proper tax year.																							
CRITERIA	IRS "Tax Topics Clarification -Topic No. 403 InterestReceived"																							
FINDING	<p>During our audit, we noted interest earning reported to IRS on Form 1099-INT for all client accounts were based on the date posted in SAP (the County's financial system) as opposed to the date earned, specifically for the 4th quarter (October 1st to December 31st). FMS includes interest income earned in the 4th quarter of the current calendar year in the 1st quarter of the following calendar year (January 1st to March 31st). The table below shows the net tax effect of this approach.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th rowspan="2">Year</th> <th colspan="3">Interest- Reconciliation</th> </tr> <tr> <th>Interest Earned</th> <th>Interest Credited to Clients</th> <th>Difference</th> </tr> </thead> <tbody> <tr> <td>FY 2017</td> <td>\$ 34,871.03</td> <td>\$ 33,557.12</td> <td>\$ 1,313.91</td> </tr> <tr> <td>FY 2018</td> <td>\$ 43,964.07</td> <td>\$ 41,825.28</td> <td>\$ 2,138.79</td> </tr> <tr> <td>FY 2019</td> <td>\$ 96,692.68</td> <td>\$ 93,483.00</td> <td>\$ 3,209.68</td> </tr> <tr> <td>FY 2020</td> <td>\$ 39,761.02</td> <td>\$ 47,757.39</td> <td>\$ (7,996.37)</td> </tr> </tbody> </table> <p>Although the overall difference is immaterial, interest income should be reported in the tax year in which it became available for use to ensure compliance with IRS tax laws and regulations and reduce the risk of placing clients in a negative tax position.</p>	Year	Interest- Reconciliation			Interest Earned	Interest Credited to Clients	Difference	FY 2017	\$ 34,871.03	\$ 33,557.12	\$ 1,313.91	FY 2018	\$ 43,964.07	\$ 41,825.28	\$ 2,138.79	FY 2019	\$ 96,692.68	\$ 93,483.00	\$ 3,209.68	FY 2020	\$ 39,761.02	\$ 47,757.39	\$ (7,996.37)
Year	Interest- Reconciliation																							
	Interest Earned	Interest Credited to Clients	Difference																					
FY 2017	\$ 34,871.03	\$ 33,557.12	\$ 1,313.91																					
FY 2018	\$ 43,964.07	\$ 41,825.28	\$ 2,138.79																					
FY 2019	\$ 96,692.68	\$ 93,483.00	\$ 3,209.68																					
FY 2020	\$ 39,761.02	\$ 47,757.39	\$ (7,996.37)																					
RECOMMENDATIONS	18.1 FMS should determine cost-benefit of including a deadline in the "Tax Unit Standards and Procedures" to apply interest earned in December to clients' accounts by January 15 th of the subsequent calendar year to ensure amounts are reported on the correct year's tax return and prevent potential negative tax consequences for the clients.																							
ASSESSED RISK RATING/PRIORITY	Low Level/ Priority 1																							
EXPECTED COMPLETION DATE	Within six to 12 months after issuance of the final audit report																							

Findings and Recommendations

FINDING #19: Economic Impact Payment Reporting	
OBJECTIVE	To ensure all clients entitled to receive Economic Impact (stimulus) checks received the benefit payments timely.
CRITERIA	IRS website: Economic Impact Payment Information Center
FINDING	<p>The Federal government issued the <i>2020 Economic Stimulus Package</i> to help stimulate the economy and provide financial relief for individuals negatively impacted by the COVID-19 pandemic. The first stimulus payment was sent to qualified Americans in Spring 2020 followed by a second payment in Winter 2020. The checks were treated as an advance tax credit on the 2020 Federal income tax returns. If an individual does not usually file income taxes, the IRS instructed them to complete an on-line application and submit their personal information to claim the stimulus payments. Otherwise, the IRS would not know who is entitled to receive payment.</p> <p>During the time we reviewed stimulus payment information, we noted at least 229 clients did not receive their second stimulus payment and 42 clients did not timely receive their first stimulus payment due to limited Tax Unit resources coupled with the additional burden of processing applications for clients who do not typically file tax returns.</p> <p>Because of these limitations, there is a risk that some clients entitled to receive stimulus payments were not properly accounted for or the required applications were not filed on their behalf to ensure receipt of the benefit.</p>
RECOMMENDATIONS	<p>Given the unique circumstances surrounding stimulus payment and possibility of the Federal government issuing future economic stimulus packages, we recommend FMS:</p> <p>19.1 Perform an independent review at calendar year-end to ensure the necessary paperwork has been filed timely for all clients entitled to receive stimulus checks.</p> <p>19.2 Continuously monitor all changes in tax laws and regulations and timely apply the changes on behalf of their clients.</p> <p>19.3 Consider hiring additional full-time Tax Unit specialists or outsource to a qualified tax preparer to handle the additional workload.</p>
ASSESSED RISK RATING/PRIORITY	Medium Level/ Priority 2
EXPECTED COMPLETION DATE	Within three to six months after issuance of the final audit report

Appendix 1: Definition of Risk Categories and Priority Levels

Risk and Priority Rating for Audit Recommendations	
High Level/ Priority One (1)	<p>Priority One recommendations are the highest assessed level of risk. For these recommendations, internal controls are considered poor or insufficient, which results in the likelihood of financial loss, waste, misappropriation of assets, or errors for the area(s) evaluated. Priority One recommendations also include issues related to non-compliance with laws, regulations or policies and procedures.</p> <p>Management should urgently implement these recommendations within one to three months after issuance of the final audit report to avoid risk exposure.</p>
Medium Level/ Priority Two (2)	<p>Priority Two recommendations are the moderately assessed level of risk. For these recommendations, internal controls provide reasonable assurance that the County program(s) or area(s) evaluated are protected from potential financial loss, waste, misappropriation of assets, or errors; however, additional action is needed to strengthen current practices.</p> <p>Management should promptly implement these recommendations within three to six months after issuance of the final audit report to improve internal control processes.</p>
Low Level/ Priority Three (3)	<p>Priority Three recommendations are the lowest assessed level of risk. For these recommendations, internal controls are operating as designed to ensure the County program(s) or area(s) evaluated are protected from potential financial loss, waste, misappropriation of assets, or errors. These recommendations are desired actions to enhance current practices.</p> <p>Management should consider implementing these recommendations within six to 12 months after issuance of the final audit report to provide additional confidence in the internal control system.</p>

Appendix 2: Internal Controls Framework

We utilized guidance in the U.S. Government Accountability Office’s *Standards of Internal Controls in the Federal Government* (“Green Book”)² to evaluate best practices for internal controls within government entities. Internal controls are processes used by management to help achieve their goals and objectives related to operations, reporting, and compliance.

Standards in the “Green Book” comprise of the following five internal control components and corresponding 17 principles that work together in an integrated framework:

Internal Control Components	Principles
Control Environment	<ol style="list-style-type: none"> 1. The oversight body and management should demonstrate a commitment to integrity and ethical values. 2. The oversight body should oversee the entity’s internal control system. 3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve its objectives. 4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals. 5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.
Risk Assessment	<ol style="list-style-type: none"> 6. Management should define objectives clearly to enable the identification of risks and define risk tolerances. 7. Management should identify, analyze, and respond to risks related to achieving the defined objectives. 8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks. 9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.
Control Activities	<ol style="list-style-type: none"> 10. Management should design control activities (i.e., policies and procedures) to achieve objectives and respond to risks. 11. Management should design the information system and related control activities to achieve objectives and respond to risks. 12. Management should implement control activities through policies.
Information and Communication	<ol style="list-style-type: none"> 13. Management should use quality information to achieve its objectives. 14. Management should internally communicate the necessary quality information to achieve its objectives. 15. Management should externally communicate the necessary quality information to achieve its objectives.
Monitoring Activities	<ol style="list-style-type: none"> 16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results. 17. Management should remediate identified internal control deficiencies on a timely basis.

²Source: <https://www.gao.gov/greenbook>

Appendix 3: Program Background and Methodology

PROGRAM BACKGROUND

The Office of PAGC is under the SSA's Department of Aging and Adult Services. PAGC serves as conservator of a person and/or estate of individuals needing protective intervention. The two types of conservatorships, Lanterman-Petris-Short (LPS) and Probate, can only be established by order of the Santa Clara County Superior Court.

LPS Conservatorship is mandated by Welfare and Institutions Code for individuals diagnosed with a severe mental illness and is determined to be gravely disabled. The purpose is to arrange for the involuntary hospitalization, and mental health treatment of individuals who meet the legal definition of grave disability as a result of a mental health disorder and who cannot provide for their food, shelter, and clothing.

As **Probate conservator**, Deputy Public Guardians/ Conservators are involved in all aspects of their clients' lives, including financial management, housing, medical care, placement, and advocacy.

California Probate Code mandates the Public Administrator to administer and provide estate closure services on behalf of deceased Santa Clara County residents when no one else is willing or able to execute the estate.

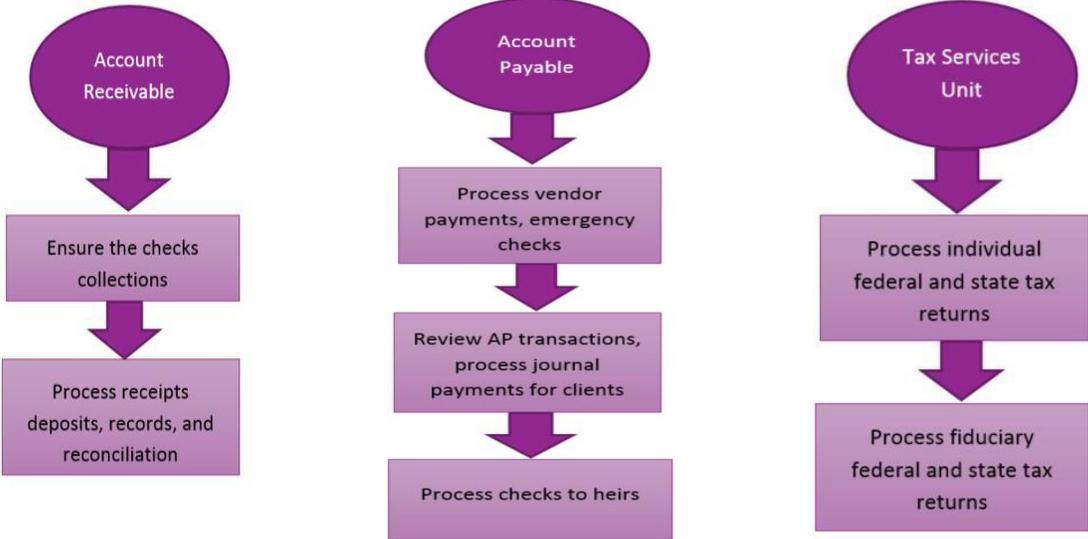
Also see flowchart of FMS & PAGC roles and responsibilities on the next page.

METHODOLOGY

To achieve our audit objectives, IAD performed the following procedures:

- Interviewed FMS and PAGC departments staff,
- Reviewed applicable County, departmental and external policies and procedures,
- Evaluated if critical controls exist for client assets stored in PAGC's warehouse and locked room,
- Evaluated if the distribution of client assets complied with PAGC policies and procedures,
- Evaluated the overall accounts receivable (income) and accounts payable processes (spending),
- Verified the valuation process of decedent's assets and determine if distribution/liquidation amounts are posted to the correct client account, and
- Reviewed clients' income tax returns and verified the timeliness of tax return filings and payment obligations.

FMS Roles and Responsibilities



PAGC Roles and Responsibilities



County of Santa Clara

Social Services Agency

353 West Julian Street
San Jose, California 95110-2335



DATE: April 14, 2022

TO: Internal Audit Division

FROM: Robert Menicocci, Directors Social Services Agency

DS
RM

SUBJECT: SSA Management Responses to PAGC Assurance Audit Report

Social Services Agency responses to the Internal Audit findings report dated March 9, 2022, are as follows:

<p>Finding #1 Condition of the Items Stored in PAGC Warehouse</p>	<p>AGREE Policy #546.2 was updated and implemented as recommended. It is important to note that the PAGC office keeps client's property for many reasons. Most of everything we store has either been identified by family/heirs as things that they want or specified by a will/trust to keep, or we are waiting for final distribution orders from the court (which can take some time and have been further delayed due to the Covid-19 Pandemic). Some clients are new, and PG only has temporary conservatorship orders, so we cannot donate, discard, abandon or sell their personal property. There are also items belonging to LPS clients (mentally ill adults) who have money to pay for storage but refuse to agree to discard or donate their belongings. Every case is different, some cases are more complicated than others, or require special handling due to client's sensitivity. There are also private attorneys, clients, heirs, etc. that we work with; therefore, we cannot always discard items that appear to be of no value. PAGC also has a fiduciary duty to safeguard a client's property. It is often cheaper to store client's items, rather than discard them, because of the possibility of being sued later by a disgruntled family member/heir.</p>
<p>Finding #2 Overcharging of Storage Fees</p>	<p>AGREE PAGC updated the Inventory Verification policy (#510.0) and will continue to verify client's property annually. The updated procedure requires staff to physically verify property which is resulting in some items being donated or distributed and a review of the client's storage fees. In addition to the review of the client's storage fees, staff must verify that all storage fees are paid and/or cancelled, prior to the distribution of the client's property. Procedure #816.0 and #546.2 were also updated to align them so that they both instruct staff to periodically review the cost of storage fees in the client's account.</p>

Board of Supervisors: Mike Wasserman, Cindy Chavez, Otto Lee, Susan Ellenberg, S. Joseph Simitian
County Executive: Jeffrey V. Smith

	<p>This review is intended to compare the total cost of the client's storage fees against the estimated property value stored, and to determine what property is to be donated, distributed, or sold which will minimize or eliminate excess storage fees of said personal property.</p> <p>A Panoramic ticket was submitted in which Pano will identify when a client passes away by the Date of Death (DOD) entered into the system. This DOD then sends an automated alert to FMS and/or the Deputy to stop billing for storage fees.</p>
Finding #3 Financial Burden of Overcharged Storage Fees	<p>AGREE</p> <p>PAGC updated Procedure #816.0 (Section 5.5) with the revision for the Property Clerk to cancel or reduce the storage fee as soon as the property is removed and within 7 working days of the removal of said property. Policy #555.0 was updated to align timelines with Procedure #816.0.</p>
Finding #4 Physical Inventory Process Not Followed	<p>AGREE</p> <p>PAGC investigated the referred audit case and provided clarification of the Policy and Procedure to all responsible staff identified in the case.</p> <p>Procedure #510.0 Inventory Verification was updated. We've seen much improvement with this process. An overview of this procedure was provided in the March 2022 PAGC all-staff meeting.</p>
Finding #5 Physical Inventory Verification – Dual Controls Not Performed	<p>AGREE</p> <p>As stated in PAGC responses for #4 & #5, the Inventory Verification Procedure (#510.0) was updated, reviewed, and all staff have been trained.</p> <p>The new Inventory Verification process is currently being implemented.</p>
Finding #6 Donation of Assets	<p>AGREE</p> <p>Procedure #534.0: Stage III- Sell, Donate and Discard was updated to include EPS staff completing a donation checklist. It was discussed in the January 27, 2022, PAGC All Staff meeting. It was also mentioned in the February 11, 2022, Weekly PAGC Update. EPS staff have already begun to include photos of the donated property, name and address of the organization receiving the donation, date of the donation, and a description of the donated property.</p>
Finding #7 True Link Card Supporting Documentation	<p>AGREE</p> <p>Procedure #825.0 - A Client's Caregiver will be required to provide receipts when making purchases using a client's True link card. Deputies will collect receipts for these purchases. True Link purchases are currently being monitored and reviewed to ensure the charges that are made by Caregivers are accounted for and adequate.</p>
Finding #8 Inconsistency of the Payment Review and Approval process	<p>DISAGREE</p> <p>We disagree with the audit recommendation to require manual or electronic signature approvals for all invoices or check requests.</p> <p>It is important to note that all invoices or check requests are reviewed and approved by authorized individuals in the payment workflows in Panoramic. The two payment workflows in Panoramic are the invoice payment workflow, and check request payment workflow. In the invoice payment workflow, FMS Accounts Payable enters the invoice into Panoramic and the invoice is electronically routed for approval to authorized PAGC approvers. Once approved in Panoramic, the invoice is processed for payment. Check requests are entered by PAGC staff into Panoramic with</p>

County of Santa Clara

Social Services Agency



353 West Julian Street
San Jose, California 95110-2335

	<p>supporting attachments, and electronically routed to the authorized PAGC approvers within the workflow. After the check request is approved, it is electronically routed to FMS A/P and processed for payment. Property invoices over \$2,500 require an SSPM approval and over \$10,000 require the Chief Deputy signature. This third approval may be a manual or electronic signature. The recommendation to have manual or electronic signatures for all invoices would create a burden to the processors and approvers and create inefficiencies in payment processing. Electronic system approvals save time and paper, and no invoices can be paid without approvals. The invoices are reviewed within the workflow and the electronic approvals are visible in the transaction detail in Panoramic.</p>
<p>Finding #9 Petty Cash Transaction Approvals</p>	<p>PARTIALLY AGREE Although it may be difficult to read a signature on a petty cash slip, they are signed by the person receiving the money. PAGC has incorporated the recommendation to require a printed and handwritten signature for clearer documentation. Procedure #112.0 was updated and implemented on February 3, 2022. Revisions to the procedure were reviewed at the February 17, 2022, PAGC All Staff Meeting.</p>
<p>Finding #10 Duplicate Payments</p>	<p>AGREE The \$486.95 duplicate cell phone payment made on 10/3/2019 was due to a processing error. This error was resolved when the service provider applied the \$486.95 credit to cell phone charges incurred in the next two months. Procedures #117.0 and #771.0 were updated to include the recommendation of reviewing the client's Panoramic account prior to issuing a payment to prevent duplicate payments. This procedure update was discussed in PAGC All Staff Meeting (2/17/22) and PAGC Weekly Update (2/11/22) and directly with staff within FMS.</p>
<p>Finding #11 Signature Authorization Process</p>	<p>AGREE IAD's recommendation to create a detailed signature authorization list is warranted. Currently there are signature lists used for DocuSign, legal action requests, death notices, archiving cases, invoices (specific dollar amounts) and other documents. Management will review the current lists and create one document with a signature authorization list that identifies who is authorized to sign documents. This includes which staff can approve invoices, payment requests, property action requests and other documents on behalf of a client, as well as documents that need several approval levels (i.e., Supervisor, Manager, and Chief Deputy PAGC). The signature list will be circulated among staff and reviewed yearly for changes. Once completed the list will be posted in the PAGC Toolbox.</p>
<p>FINDING #12: Obsolete Tax Unit Standards and Procedures</p>	<p>AGREE The tax procedure documentation was last updated in May 2014. It should be noted the tax accountant takes annual continuing education classes to learn the latest tax law changes and incorporates this knowledge in the annual tax return filings. The tax procedure was updated in February 2022, and the tax accountant will update the procedure annually, to be reviewed by the supervisor.</p>

Board of Supervisors: Mike Wasserman, Cindy Chavez, Otto Lee, Susan Ellenberg, S. Joseph Simitian
County Executive: Jeffrey V. Smith

<p>FINDING #13: Accuracy and Completeness of Clients' Tax Returns</p>	<p>PARTIALLY AGREE</p> <p>We don't agree with the statement in the summary of #13 there is no specific requirement to meet the April 15th or October 15th deadline for individual tax filings. It is clearly stated in the tax procedure the tax returns are due April 15th and extensions are due October 15th. The Tax Unit manages their workload and puts in a tremendous effort to meet these deadlines. In one of the tax findings where a return was filed late, the tax filing was for a new client, and the Tax Unit needed to obtain prior year tax returns from the IRS to prepare the return. The earliest in the year the IRS will accept requests for prior year returns is August 2nd, and it can take up to two months or longer for the IRS to respond. In this instance, the IRS responded by October 16th, and the tax filings were prepared as soon as possible to minimize any late fees for the client. However, the client did not have enough funds available for their tax liability, and the client incurred \$400.71 in late fees until the client had funds to pay the tax liability.</p> <p>The Tax Unit receives most of the tax documentation necessary to prepare the returns from the mail and within Panoramic. In the instances when information is requested from the Estate Administrator, a deadline of two weeks to send the information to the Tax Unit has been updated in the procedure.</p>
<p>FINDING #14: Limited Tax Unit Staffing</p>	<p>AGREE</p> <p>The audit finding summary states the tax returns filed for 2018 totaled 154, and the total increased significantly to 372 for 2020 returns. It's important to note there was a significant increase in 2020 tax return filings in order that clients may receive Covid-19 stimulus payments. The number of filings should return to an average of 150 per year. Also, in 2018 there were 2 full time staff. In 2020 one staff left, and the position was deleted. We are in the process of adding an Accountant III to the Tax Unit. Currently, there is one full-time staff and a part-time extra help. We will do a cost/benefit analysis to determine whether we should engage an outside CPA firm for the more complex returns.</p>
<p>FINDING #15: No Segregation of Duties</p>	<p>AGREE</p> <p>We expect to have segregation of duties when an additional tax accountant is hired. We are in the process of adding an Accountant III to the Tax Unit.</p>
<p>FINDING #16: Lack of an Effective Tax Planning Process</p>	<p>AGREE</p> <p>FMS and PAGC work closely together to gather all the necessary information for client tax filings and plan as best as possible to mitigate tax liabilities for clients with complex estates. We will look into developing a process where the Tax Unit is automatically notified of any changes in a client's filing status or significant life events that may impact the tax return. Also, a tax planning checklist will be created. And as noted in finding #14, we will consider contracting with a CPA firm for more complex tax matters.</p>
<p>FINDING #17: Timeliness of Tax Return Filings</p>	<p>PARTIALLY AGREE</p> <p>The Tax Unit is aware of the tax deadlines, and it is part of the tax return filing process to file returns on time to avoid penalties and interest. It is clearly stated in the tax procedure the tax returns are due April 15th and extensions are due October 15th.</p>

County of Santa Clara

Social Services Agency



353 West Julian Street
San Jose, California 95110-2335

	<p>This is a priority for the Tax Unit, and the unit manages their workload and puts in a tremendous effort to meet these deadlines. PAGC and the Tax Unit work closely together to gather information needed for a client's tax returns, and to avoid tax penalties and interest when possible. There are instances where penalties and fees may be unavoidable due to client actions before a client becomes conserved with PAGC. For example, a new client may not have filed prior year tax returns prior to being conserved by PAGC, and therefore will likely incur late fees or penalties if there is a tax liability when the tax returns are filed. Or there may be instances where the client doesn't have enough funds to pay their taxes, and assets may have to be sold to pay their tax liability, and this delay could result in late payments. As mentioned in Finding #13, the client incurred late fees of \$400.71 due to the client's lack of funds to pay their tax liability promptly. In the second case, the return was filed 5/21/21, four days after the due date of 5/17/21, and the tax payment of \$2,369 was issued on 5/24/21. The penalty and interest total of \$42.86 was incurred for this client. There was a significant increase in 2020 tax return filings in order that clients may receive Covid-19 stimulus payments. The increased number of filings may have contributed to this late filing. Late fees are reviewed frequently to determine cause, and whether adjustments are needed. We will implement an annual review of tax return filings.</p>
<p>FINDING #18: Interest Income Reporting Period</p>	<p>AGREE We will determine the cost/benefit of changing the interest income reporting period for the tax returns.</p>
<p>FINDING #19: Economic Impact Payment Reporting</p>	<p>AGREE The Covid-19 stimulus payments greatly increased the workload of the Tax Unit in 2021. A review was done to ensure that all eligible clients received their stimulus, and tax returns were filed if an eligible client did not receive a stimulus payment. As previously mentioned, the tax accountant takes yearly continuing education tax classes to stay current with changes in the tax laws and regulations, and any tax law changes are incorporated into the tax return filings. We are in the process of adding an Accountant III to the Tax Unit.</p>

Board of Supervisors: Mike Wasserman, Cindy Chavez, Otto Lee, Susan Ellenberg, S. Joseph Simitian
County Executive: Jeffrey V. Smith