

**INVESTIGATIVE AUDIT OF THE RECORDS OF THE
EAST TENNESSEE HUMAN RESOURCE AGENCY
FOR THE PERIOD MAY 1, 2000, THROUGH SEPTEMBER 30, 2001**

The East Tennessee Human Resource Agency (ETHRA) serves as a representative payee for beneficiaries of the Social Security Administration Supplemental Security Income (SSA/SSI) program. According to Social Security Administration Publication 17-013, *Guide for Organizational Representative Payees*, SSA/SSI “is a federal income maintenance program for aged, blind and disabled persons with little or no income or resources.” The same publication states, “A representative payee is an individual or organization that receives Social Security and/or SSI payments for someone who cannot manage or direct someone else to manage his or her money.” ETHRA also acted as representative payee for several individuals who receive veteran’s benefits.

In this report, the terms “agency” and “the agency” refer to ETHRA.

LEGAL ISSUES

1. **ISSUE:** **Apparent misappropriation totaling at least \$53,729.40**

Our investigative audit revealed that a former employee of the ETHRA Representative Payee Program apparently diverted the proceeds of program checks totaling at least \$53,729.40 for her personal benefit. Based on available records and client interviews, it appears that this employee requested checks to be made payable to herself, to various utility companies, to retail stores including Wal-Mart and Kroger, and to loan companies. The proceeds of these checks apparently benefited the employee, not the 43 disabled and veteran clients who had entrusted ETHRA to manage their finances, and to whose accounts the apparently misappropriated checks were charged.

This former ETHRA employee admitted to misappropriating money from the ETHRA Representative Payee Program by having checks issued and charged to client accounts held in trust. She used the funds to pay her personal bills, and to obtain cash, goods, and services for her personal use. The employee also admitted that she was able to perpetrate and conceal the misappropriation by falsifying check requests in the agency’s accounting records, and by forging and/or altering receipts for cash, goods and services that clients never actually received.

NOTE: Our investigative audit revealed an additional \$1,796 of apparent misappropriations from client accounts. However, the related clients either could not be located or had disabilities that prevented conclusive verification. We discovered these apparent misappropriations after our interview with the former employee.

2. **ISSUE: Inappropriate loan of \$3,500 obtained from client account**

Our investigative audit revealed that the same former ETHRA employee (refer to Legal Issue 1) purchased a vehicle for herself with a \$3,500 check, dated April 25, 2001, charged to the account of an ETHRA client receiving veteran's benefits. This transaction violated the ETHRA conflict-of-interest policy. The client stated that he consented when the former employee asked if she could borrow and repay the money. The former employee did not make any repayments of the loan. This amount is included in the total apparent misappropriation noted in Legal Issue 1.

According to personnel records, the former employee signed a "Conflict of Interest Policy" on 12-6-00. The policy stated:

ETHRA employees will not accept for themselves, nor for any member of their families, or close associates, any gifts, bequests or conveyances of real or personal property, services or gratuities from any clients, vendors or representatives of clients or vendors whom the employee becomes associated by virtue of the employee's performance of job duties for ETHRA. . . . Employees shall refrain from engaging in any activity with the ETHRA clients or vendors whereby the employee could be deemed to have received advantageous treatment from said client or vendor by virtue of the employee's association with and/or performance of his/her job duties as an ETHRA employee.

The *SSA Guide for Organizational Representative Payees*, page 14, charges representative payees to "spend funds in the best interest of the beneficiary."

The matters described in the preceding legal issues have been referred to the local district attorney general. As a result, the Knox County Grand Jury indicted the former employee on four felony counts.

FINDINGS AND RECOMMENDATIONS

1. **FINDING:** **Inadequate separation of duties**

Employees of the ETHRA Representative Payee Program had almost total control over client financial transactions. Each employee was responsible for assessing their assigned clients' financial requirements, maintaining client records, requesting checks for client-related payments, and obtaining and maintaining documentation of client transactions. These employees also had access to the prepared checks they requested, including checks payable to themselves purportedly for cash to be given to clients. A supervisor assigned to program disbursement review and at least one employee in the accounting office stated that they had questioned the quantity of and dollar amounts on checks issued to a former employee. However, no one accepted responsibility for follow up and resolution. Because ETHRA management failed to exercise adequate oversight and to ensure adequate separation of duties, the former ETHRA employee was able to misappropriate money held in trust for clients, as noted in the Legal Issues, without timely detection.

Accounting and Financial Reporting for Not-for-Profit Recipients of Grant Funds in Tennessee, Section 6, lists control objectives and specific control procedures for the purchasing cycle. To help ensure that goods and services purchased are appropriate for the program, the manual, page 6-9, requires management to ensure that

To the extent possible, the following duties are not performed by the same person: approving requisitions, preparing purchase orders, receiving goods or services, approving payment, preparing checks, signing checks, and preparing the bank reconciliation.

RECOMMENDATION:

To decrease the risk of future misappropriations or other undetected errors or irregularities, ETHRA management should review the employees' responsibilities, including access to completed checks, as well as computer access and processing responsibilities. Duties should be properly separated to ensure that no employee has control over complete transactions. Checks issued to and at the request of representative payee program employees should be closely scrutinized by someone not involved in check processing to ensure validity. Agency management should require documentation of supervisory approval for checks issued with clients' funds and assign responsibility for resolution of questioned transactions.

MANAGEMENT'S RESPONSE:

Executive Director:

I strongly concur with the response of our fiscal director.

Members of the Executive Committee:

The Board of Directors for ETHRA has reviewed the findings and the corresponding responses presented by management. We know that this matter is of great concern to all of ETHRA. It is apparent from the responses that the management staff intends to resolve this matter beyond the prescribed recommendations. This management team will undoubtedly initiate greater internal controls that will deter any similar incident.

This board will continue to monitor the progress of the proposed resolution. ETHRA will always be open to the recommendations of your office and any process that you feel can aid in monitoring or managing this or any other ETHRA program.

Fiscal Director:

As an internal control change in response to the finding, the SSI representative payee program manager, Ms. Glenda Loope, has been required to authorize all disbursements for SSI recipients assigned to ETHRA. An accounts payable clerk has been assigned to upload requests that have been authorized by Ms. Loope. A data entry clerk prints the checks. Effective May 15, 2003, all checks are being mailed to the SSI recipients.

Based on the recommendations of Mr. Dycus and the Division of Municipal Audit staff, ETHRA will not deliver printed checks to the SSI staff. The accounting staff will mail checks unless there is a valid reason for not mailing a particular check (i.e. homeless client). For checks that need to be hand delivered to recipients, the SSI program technician will be given the checks and these will be logged. Periodically, an accounting staff member will review the log with Ms. Loope to assess the nature of the payment and to determine if there was any possible way to avoid routing the payments through the SSI Department.

Due to the small size of the SSI Department (program manager, program specialist, program technician) and the large volume of transactions, it would not be practical or cost efficient to require purchase orders for all transactions. The only way that ETHRA can operate this program is to limit costs. Currently, the fees from this program do not cover all overhead costs. To add staff for the purpose of entering purchase orders would make the program too costly for ETHRA to continue providing the service. The process we have put in place can be appropriately monitored with minimal cost. This monitoring will be addressed in the General Comments. (Refer to appendix.) The accounting staff has been instructed that no staff member outside of the accounting department is permitted to access completed checks.

The SSI staff does not have the security rights to input information directly into the accounting program. The rights to this function of the program are restricted to the data entry clerk and one accounts payable clerk (as backup). The SSI staff only has access to view recipient information.

The final release of payment is currently assigned to administrative management staff. As part of a software upgrade, ETHRA is currently reviewing this process.

The generic blank check stock is stored in a locked cabinet with the key controlled by the accounts payable manager. Only two accounting staff members are authorized to print checks (primary and backup). As mentioned above, an accounts payable clerk, independent of the person authorized to print the check, uploads the SSI recipient payments, and only after the upload is approved by Ms. Loope.

The SSI staff maintains an independent database of SSI recipient needs and payments. This database is used to determine the payments needed for SSI recipients. Information is downloaded from this database and, with the review and approval of Ms. Loope, is uploaded into the accounts payable system. This process is efficient for the large volume of transactions. However, there are plans in place to improve these processes (discussed in the General Comments).

2. **FINDING: Missing or inadequate documentation for disbursements**

ETHRA employees failed to maintain adequate supporting documentation for each disbursement from payee program client accounts, including disbursements that were not determined to have been misappropriated. For many of these disbursements, including checks payable to ETHRA employees and to Wal-Mart, the files contained no documentation whatsoever. In many other cases, because of insufficient documentation, it was not readily apparent that disbursements were authorized, appropriate, and for a client's benefit. Our audit also revealed that the agency had no systematic method for filing invoices and other documentation. Supporting documents and other records were located in client files in the payee program office, and in filing cabinets and boxes in the accounting office. Agency management also discovered several folders of unfiled invoices, statements, and other supporting documentation on the desk of a former ETHRA payee representative employee after she left the employment of the agency.

As noted in Finding 1, agency management failed to provide adequate oversight. In addition, agency management apparently failed to designate to an authorized employee the responsibility for ensuring that adequate supporting documentation was acquired, retained, and properly stored. As a result, although supervisors and employees in both the payee program and in the accounting office stated that they had raised questions about disbursements and/or lack of supporting documentation, no one accepted responsibility for follow up and resolution. In fact, our audit revealed that agency staff members in various departments were unclear about their specific responsibilities related to

supporting documentation. Because the agency had no systematic method of filing invoices and other documentation, the extent of the inadequacy of supporting documentation was not detected timely.

The Social Security Administration's Publication 17-013, *Guide for Organizational Representative Payees*, states that the representative payee is required to "Keep written records of all payments received from SSA and how they are spent and saved." In addition, *Accounting and Financial Reporting for Not-for-Profit Recipients of Grant Funds in Tennessee*, Section 6, includes in its control objectives the requirement that disbursements for purchases be supported by adequate documentation.

RECOMMENDATION:

To document that each disbursement was for an authorized and valid purpose that benefited the client whose account was charged, ETHRA management should assign responsibility for ensuring that adequate supporting documents are maintained in the agency's files in a manner that can easily facilitate their review. Before approving checks for issuance, responsible personnel should review the adequacy of supporting documentation and determine that the disbursement is for a valid purpose that benefits the client. As noted in Finding 1, checks issued to and at the request of representative payee program employees should be closely scrutinized by someone not involved in check processing to ensure validity. Agency management should require documentation of supervisory approval of these checks.

MANAGEMENT'S RESPONSE:

Executive Director:

I strongly concur with the response of our fiscal director.

Members of the Executive Committee:

The Board of Directors for ETHRA has reviewed the findings and the corresponding responses presented by management. We know that this matter is of great concern to all of ETHRA. It is apparent from the responses that the management staff intends to resolve this matter beyond the prescribed recommendations. This management team will undoubtedly initiate greater internal controls that will deter any similar incident.

This board will continue to monitor the progress of the proposed resolution. ETHRA will always be open to the recommendations of your office and any process that you feel can aid in monitoring or managing this or any other ETHRA program.

Fiscal Director:

Currently, it is the responsibility of the SSI program manager, Ms. Loope, to ensure that all payment requests are valid and properly documented. I will review the Social Security

Administration's *Guide for Organizational Representative Payees* and the *Accounting and Financial Reporting for Not-for-Profit Recipients of Grant Funds in Tennessee*, Section 6, with Ms. Loope. These resources will be used to determine what ETHRA will permit as appropriate and adequate documentation for payments on behalf of SSI recipients.

We will also develop an internal review process to randomly review documentation for recipient payments. This will lead to continual improvement in the adequacy of documentation. With changes in software, we will implement controls to cross reference documentation with payment vouchers to improve retrieval and validation. There will be a thorough review of the filing system and procedures will be documented to bring accountability to maintaining adequate documentation. In addition, overall accounting policies and procedures will be reviewed and revised. Once revised, they will be regularly communicated to all staff to ensure that appropriate controls are maintained for the SSI Recipient Program and all ETHRA programs.

Program Manager:

I concur with the written response and general comments of the fiscal director.

3. **FINDING: Inadequate review of disbursements**

Representative Payee Program checks had only one signature, which was computer-generated. Our audit indicated that ETHRA management neither reviewed requests for checks (purchase requisitions), nor reviewed the prepared checks prior to the checks being issued. Conversations with ETHRA management revealed that certain supervisors reviewed lists of issued checks. According to these supervisors, some transactions, including large checks issued directly to a former ETHRA employee, and large disbursements purportedly for Wal-Mart cards, had been questioned. However, as noted in Finding 2, agency management apparently failed to assign responsibility to an authorized employee to ensure the validity of disbursements. As a result, there was inadequate follow up on questioned payments to determine that these payments benefited the client whose account had been charged.

Accounting and Financial Reporting for Not-for-Profit Recipients of Grant Funds in Tennessee, Section 6, requires that checks be signed by two authorized individuals after they are completed, or that other compensating controls be implemented. In addition, this section requires that all requisitions for purchases be properly approved by management.

RECOMMENDATION:

To help ensure that disbursements are valid and benefit the clients whose accounts are charged, we recommend that agency management implement procedures to ensure that

disbursements are reviewed timely by authorized employees and all questions are conclusively resolved. Documentation of this review should be retained by the agency.

MANAGEMENT'S RESPONSE:

Executive Director:

I strongly concur with the response of our fiscal director.

Members of the Executive Committee:

The Board of Directors for ETHRA has reviewed the findings and the corresponding responses presented by management. We know that this matter is of great concern to all of ETHRA. It is apparent from the responses that the management staff intends to resolve this matter beyond the prescribed recommendations. This management team will undoubtedly initiate greater internal controls that will deter any similar incident.

This board will continue to monitor the progress of the proposed resolution. ETHRA will always be open to the recommendations of your office and any process that you feel can aid in monitoring or managing this or any other ETHRA program.

Fiscal Director:

With over 480 recipients (and growing) and approximately 20 to 50 payments issued for each recipient each month, it is not feasible to say that physical signatures would improve assurance of adequate review. The assurance for appropriate disbursements has to be determined by the person that best understands the needs of the SSI recipients. Only the program manager and program specialist qualify for this determination. Therefore, a degree of trust has to be placed on Ms. Loope as the program manager to validate every payment request before it is uploaded to the accounts payable system.

Checks should never be issued payable to SSI staff for SSI recipient expenses. Historically, the practice of ETHRA has been that Ms. Loope or the program specialist may observe emergent needs of a recipient, pay for these with their own cash and request reimbursements from the SSI recipient account. This will not be an acceptable practice in the future regardless of the practicality. These transactions cannot be validated and could lead to potential abuse or fraud. All disbursements must be validated by Ms. Loope and distributed to appropriate vendors or recipients without involving Ms. Loope or the program specialist. Any payments requiring delivery by SSI staff should be logged and reviewed regularly with Ms. Loope. This review will be documented as recommended by Mr. Dycus and the Division of Municipal Audit staff.

Program Manager:

I concur with the written response and general comments of the fiscal director.

4. **FINDING: Lack of physical controls over checks**

The ETHRA payee program employees responsible for requesting checks had physical access to those checks after they were completed. As a result, as noted in the Legal Issue section, a former Representative Payee Program employee was able to obtain and transact numerous checks payable to herself and to various vendors that she did business with. She was able to use the proceeds of those checks for her personal benefit without timely detection. Our investigative audit revealed that this former employee apparently continued to have access to completed checks even when facing disciplinary action, and that some of these checks were apparently misappropriated.

Accounting and Financial Reporting for Not-for-Profit Recipients of Grant Funds in Tennessee, page 6-14, requires recipients to ensure that

Inventories are adequately safeguarded against loss, theft, physical deterioration, or misuse by being kept in locked enclosures, access to which is granted only to authorized personnel.

RECOMMENDATION:

To help ensure that disbursements benefit the clients whose accounts are charged, agency management should ensure that employees who are responsible for requesting checks do not have access to completed checks. Vendor checks should be mailed directly to the vendor.

MANAGEMENT'S RESPONSE:

Executive Director:

I strongly concur with the response of our fiscal director.

Members of the Executive Committee:

The Board of Directors for ETHRA has reviewed the findings and the corresponding responses presented by management. We know that this matter is of great concern to all of ETHRA. It is apparent from the responses that the management staff intends to resolve this matter beyond the prescribed recommendations. This management team will undoubtedly initiate greater internal controls that will deter any similar incident.

This board will continue to monitor the progress of the proposed resolution. ETHRA will always be open to the recommendations of your office and any process that you feel can aid in monitoring or managing this or any other ETHRA program.

Fiscal Director:

As stated above (see response to Finding 1), completed checks will not be distributed to staff unless absolutely necessary. These necessary cases will be logged and reviewed regularly. Whenever possible, checks shall be mailed. However, some of the issues of this program require urgency and special handling. The SSI staff may need to get involved to assure that the SSI recipient is served properly by delivering payments. In these cases, the payments will be logged as received by the SSI staff along with the description that required SSI staff involvement. An accounting staff member will review this log with Ms. Loope and the review will be documented as described in Finding 3.

AUDITOR'S CLARIFICATION OF MANAGEMENT'S RESPONSE TO FINDINGS 1, 2, AND 3, AND OF MANAGEMENT'S GENERAL COMMENTS AS LOCATED IN THE APPENDIX:

We acknowledge the increased responsibility given to the SSI program manager and the expected positive effect on internal control. However, this does not lessen top management's responsibility to ensure that all public funds received by the agency are used properly and that programs are operated as effectively and efficiently as possible. Because the SSI program manager remains responsible for the direct oversight of many of the SSI clients, her increased responsibilities do not negate the need for an independent review by a designated management employee not directly involved in authorizing, recording, and documenting transactions. Therefore, we recommend that the executive director assign a supervisory/management staff person (at least one level above the SSI program manager) to periodically review SSI transactions and related documentation, particularly transactions and documentation that could more easily be manipulated to benefit someone other than the client whose account was charged. The executive director should accept responsibility to ensure that the review is documented, and that all questioned transactions are conclusively resolved.

While we recognize that no system of internal control can completely eliminate the possibility of misappropriation, a system of adequate internal controls, including proper supervision and management review, provides added assurance that such irregularities are detected timely. This helps ETHRA fulfill its fiduciary responsibility to ensure that the client/recipients who the agency has pledged to assist, actually receive the benefits to which they are entitled.

APPENDIX

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ETHRA MANAGEMENT'S GENERAL COMMENTS

GENERAL COMMENTS:

ETHRA has a true passion to serve these SSI Recipients. We believe that these needy people will not be assisted in any other way. This program will never pay for itself from the menial fees that are charged and ill afforded by the SSI Recipients. To ask an organization to take a true interest in these Recipients and operate the program with the heart that ETHRA operates is not cost effective. However, ETHRA will not operate it as a social service program to the masses. This organization is based on caring for the unloved, needy, and unsociable individuals that reside (sometimes under bridges) in the East Tennessee Community. This is apparent in Mr. Acuff, the Administrative Staff, and the Program Managers of the many programs that ETHRA operates.

It is very unfortunate that a misguided criminal pilfered the SSI Program. Like most white-collar crimes, it is the last person you would have expected that commits the crime. It is unfortunate that this is ultimately reflected on ETHRA and the management staff. Realistically, there is not a control that can prevent crime. The Division of Municipal Audit is very generous in their evaluation and recommendations. However, this program relies on a very few individuals to ensure that hundreds of people will survive from day to day. These are not people that can be effectively budgeted and tracked through internal controls. The truth of the matter is that any of these Recipients may become incarcerated, dejected, relocated, hospitalized, or even killed without any notice given to the SSI Staff. Many of the Recipients don't have telephones and many don't have an address. It takes a special person to run this program with the heart of ETHRA.

This program could be operated strictly from a programmatic financial management basis. SSI Recipients assigned by Social Security could be set up and checks could be printed and issued like a bank, without concern for the true well being of the individuals. This could be done "in the best interest of the SSI Recipient" as required by the program. These people would not find the comfort that is provided by ETHRA. ETHRA would not be ETHRA if this were the process.

With that said, it has become more apparent that this program can be manipulated. As stated by the Auditors from the Division of Municipal Audit, the crime committed against the people enlisted in the SSI Representative Payee Program at ETHRA would have been very difficult to detect. Many methods were used to obtain and divert the funds that were provided for these needy people.

The set-up of the system that has been used in the past does not allow for financial analytical comparisons. ETHRA is in the process of converting to a version of the Accounting Software (Blackbaud Financial Edge) that will enable a more comprehensive analysis. The conversion is an overhaul of the entire accounting structure. This was needed for various reasons, including compliance with GASB Statement 34. The conversion is scheduled to "go live" on July 1, 2003.

After the conversion, analytical reports can be written to aid in detecting variances in the SSI Recipient accounts. It will not be reasonable to say that every Recipient file will be reviewed extensively and continuously, given the limited staff in the SSI Program and a limited staff in accounting. However, through exception reporting and random or rotated review, changes in spending can be addressed by Ms. Loope.

Along with the new software, a comprehensive Budgeting Module has been added. With this module, we anticipate being able to input the original spending plan developed for each SSI Recipient. We can then monitor variations from the spending plan on an exception basis. Variances can be reviewed by Ms. Loope to identify possible inappropriate spending.

We are very conscious of access rights to the accounting software. We have limited access of the Accounts Payable Clerks to the Accounts Payable module. The Data Entry Clerk responsible for printing checks does not upload the batches for SSI Recipient payments.

With the Blackbaud Financial Edge, we have purchased an advanced security module. With this module, ETHRA will be able to define access rights at a more advanced level. Access can be customized and limited to allow specific use by each user. Managers will have "view only" rights that will allow them to see everything they need to manage the program. Special exception reports can be developed that will appear on their opening screen. All access can be customized to the needs of each person accessing the accounting system.

ETHRA will continue to examine ways to make this program work more effectively and securely. However, like all of ETHRA's programs, we will not operate the SSI Recipient Representative Payee program without compassion.

