

INVESTIGATIVE AUDIT REPORT

**EAST TENNESSEE HUMAN RESOURCE AGENCY
SSI REPRESENTATIVE PAYEE PROGRAM
JULY 1, 2006, THROUGH OCTOBER 31, 2007**



State of Tennessee



**Comptroller of the Treasury
Department of Audit
Division of Municipal Audit**



STATE OF TENNESSEE

C O M P T R O L L E R O F T H E T R E A S U R Y

John G. Morgan

Comptroller

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-0260

PHONE (615) 741-2501

December 4, 2008

Members of the Board of Directors
East Tennessee Human Resource Agency
9111 Cross Park Drive, D-100
Knoxville, TN 37923

Ladies and Gentlemen:

Presented herewith is the report on our investigative audit of selected records of the East Tennessee Human Resource Agency, SSI Representative Payee Program. This investigative audit focused on the period July 1, 2006, through October 31, 2007. However, when warranted, this scope was expanded.

The Comptroller has prescribed a minimum system of recordkeeping for nonprofit agencies, which is detailed in the *Accounting and Financial Reporting for Not-For-Profit Recipients of Grant Funds in Tennessee*. The purpose of our audit was to determine the extent of the entity's compliance with certain laws and regulations, including those in this manual.

Our investigative audit revealed that during the period September 1, 2005, through September 30, 2007, a former employee of the ETHRA Representative Payee Program apparently diverted the proceeds of program checks totaling at least \$53,488.94 for her personal benefit. This matter was referred to the local district attorney general. On August 5, 2008, the Knox County Grand Jury returned an indictment against former ETHRA employee, Robin Price, on one count of Theft over \$10,000 and one count of Forgery over \$10,000.

The findings and recommendations in this report also relate to those conditions that we believe warrant your attention. All responses to each of the findings and recommendations are included in the report.

Members of the Board of Directors
East Tennessee Human Resource Agency
December 4, 2008

Copies of this report are being forwarded to Governor Phil Bredesen, the State Attorney General, the District Attorney General, certain state legislators, and various other interested parties. A copy is available for public inspection in our office.

Very truly yours,

A handwritten signature in black ink that reads "John G. Morgan". The signature is written in a cursive style with a long horizontal flourish at the end.

John G. Morgan
Comptroller of the Treasury



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF MUNICIPAL AUDIT**

John G. Morgan
Comptroller of the Treasury

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Dennis F. Dycus, CPA, CFE, Director
Division of Municipal Audit

December 4, 2008

Mr. John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, TN 37243-0260

Dear Mr. Morgan:

As part of our ongoing process of examining the records of nonprofit organizations, we have completed our investigative audit of selected records of the East Tennessee Human Resource Agency, SSI Representative Payee Program. This investigative audit focused on the period July 1, 2006, through October 31, 2007. However, when the examination warranted, this scope was expanded.

The Comptroller has prescribed a minimum system of recordkeeping for nonprofit organizations, which is detailed in the *Accounting and Financial Reporting for Not-For-Profit Recipients of Grant Funds in Tennessee*. The purpose of our audit was to determine the extent of the entity's compliance with certain laws and regulations, including those in this manual.

Our investigative audit revealed that during the period September 1, 2005, through September 30, 2007, a former employee of the ETHRA Representative Payee Program apparently diverted the proceeds of program checks totaling at least \$53,488.94 for her personal benefit. This matter was referred to the local district attorney general. On August 5, 2008, the Knox County Grand Jury returned an indictment against former ETHRA employee, Robin Price, on one count of Theft over \$10,000 and one count of Forgery over \$10,000.

Our examination also resulted in findings and recommendations related to the following:

1. Appearance of conflicts of interest
2. Inadequate supervisory review of financial transactions.
3. Inadequate separation of duties
4. Missing or inadequate documentation for disbursements
5. Lack of physical controls over and inadequate procedures related to checks

Mr. John G. Morgan
Comptroller of the Treasury
December 4, 2008

In addition to our findings and recommendations, we are also providing management's response. If after your review, you have any questions, I will be happy to supply any additional information which you may request.

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis F. Dycus". The signature is fluid and cursive, with a large initial "D" and "F".

Dennis F. Dycus, CPA, CFE, Director
Division of Municipal Audit

**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF
EAST TENNESSEE HUMAN RESOURCE AGENCY
SSI REPRESENTATIVE PAYEE PROGRAM
FOR THE PERIOD JULY 1, 2006, THROUGH OCTOBER 31, 2007**

LEGAL ISSUE

1. **ISSUE: Apparent misappropriation totaling at least \$53,488.94**

Our investigative audit revealed that during the period September 1, 2005, through September 30, 2007, a former employee of the ETHRA Representative Payee Program apparently diverted the proceeds of program checks totaling at least \$53,488.94 for her personal benefit.

Based upon available records and client interviews, it appears that this former employee used various schemes to personally obtain the proceeds of at least 130 ETHRA checks which rightfully should have benefited at least 33 disabled clients and/or veterans who had entrusted ETHRA to manage their money. As noted, the former employee:

- Submitted false claims to cause checks to be issued to disabled clients and veterans. She intercepted these checks and deposited them into her personal bank account.
- Submitted false claims to cause checks to be issued to disabled clients and veterans. She intercepted these checks and cashed them, keeping the cash for her personal benefit. (Refer to Exhibit 1.)
- Submitted false claims to cause checks to be issued to various vendors, such as Comcast, for payment of her personal utility bills and loans. The false claims indicated that these checks were to benefit the disabled clients and veterans. (Refer to Exhibit 2.)
- Submitted false claims to cause checks to be issued to various vendors, such as Food City and Wal-Mart, purportedly for the benefit of disabled clients and veterans. The former employee intercepted these checks and used them to purchase gift cards or other items which she apparently retained for her personal benefit.

- Submitted false claims to cause checks to be issued directly to herself or to the program manager purportedly to provide cash, food, and other essential needs to disabled clients and veterans unable to personally obtain these needs. The former employee cashed some of these checks and kept the proceeds for her personal benefit. The former employee deposited the remainder of these checks into her personal bank account. (Refer to Exhibit 3.)
- Intercepted checks from third parties, including a bank and a funeral home, issued to or intended to benefit disabled clients and veterans, and deposited these checks into her personal bank account. (Refer to Exhibit 4.)
- Without authorization and knowledge of the related disabled client, requested and received cash back from deposits of ETHRA checks she made into the client's personal bank account, keeping the cash for her personal benefit. (Refer to Exhibit 5.)

As noted, the proceeds of these checks benefited the former employee instead of disabled clients and/or veterans who had entrusted ETHRA to manage their finances. It should be noted that some client files contained documentation of unpaid bills, as well as requests for additional funds for food, health care, etc.

The former employee admitted to misappropriating from the ETHRA Representative Payee Program checks totaling \$49,285.94 by diverting and retaining for her personal benefit the proceeds of checks charged to client accounts held in trust. She acknowledged she used the funds to pay her personal bills and to obtain cash, goods, and services for her personal use. The former 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 the client's endorsement on some checks.

The former employee claimed that the clients received the gift cards she purchased with payee program funds. However, the related clients we visited denied having received these gift cards. In addition, we were unable to locate any documentation in related client files to indicate they received the benefit of any misappropriated checks revealed by the audit.

These matters were referred to the local district attorney general. On August 5, 2008, the Knox County Grand Jury returned an indictment against former ETHRA employee, Robin Price, on one count of Theft over \$10,000 and one count of Forgery over \$10,000.

BACKGROUND INFORMATION

The East Tennessee Human Resource Agency (ETHRA) serves as a representative payee for beneficiaries of the Social Security Administration's Social Security and Supplemental Security Income (SSI) programs, as well as for several individuals who received veteran's benefits. According to Social Security Administration Publication, *Guide for Organizational Representative Payees* 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." (Emphasis added.)

This office issued a previous investigative audit of the ETHRA Representative Payee Program on July 22, 2003, concluding that at least \$53,729.40 was misappropriated from 43 payee program clients. The report also included findings regarding internal control and compliance deficiencies that allowed the misappropriation to occur without detection, as well as recommendations to correct those deficiencies. All of the deficiencies were also noted during this audit. Apparently, management either failed to implement corrective internal controls or failed to ensure that the internal control procedures were followed. These deficiencies included inadequate separation of duties, missing or inadequate documentation for disbursements, inadequate review of disbursements, and lack of physical controls over checks. In this report, we reiterate those findings.

Management's response to findings in the previous audit indicated management's intention to correct many of the noted deficiencies by assigning increased responsibility to the Representative Payee Program manager. This office cautioned management that these increased responsibilities did not "... negate the need for an independent review by a designated management employee not directly involved in authorizing, recording and documenting transactions.... 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."

As noted by the previous Legal Issue and following Findings, the executive director and other management failed to accept responsibility to properly supervise and review transactions related to the Representative Payee Program.

FINDINGS AND RECOMMENDATIONS

1. **FINDING: Appearance of conflicts of interest**

Management failed to address alternative internal controls necessitated by personal and financial relationships between supervisors and subordinates. In her ETHRA employment application dated December 2, 2002, Robin Price, the former ETHRA employee who apparently misappropriated over \$53,000 as noted in the Legal Issue, provided the same home address and telephone number as that of the ETHRA Representative Payee Program manager authorized to supervise her work and sign her employee evaluations. Also, from at least June 24, 2006, through her termination on November 1, 2007, Ms. Price and this manager shared a joint bank account. At least 67 of the misappropriated checks noted in the Legal Issue, which should have benefited disabled clients and veterans, were deposited into this joint bank account.

In May and June 2007, at least three months before initial questions were raised concerning questionable transactions by Ms. Price, 21 checks totaling \$7,840 had been diverted into the personal joint bank account shared by Ms. Price and the program manager. The program manager denied any knowledge of the diverted checks. She stated she did not look at the joint bank account records and did not notice any unusual changes in the account balance. The program manager maintained that prior to being notified by investigators, she did not know that several of her personal delinquent utility bills had been paid by diverted ETHRA checks. The program manager acknowledged that she trusted the former employee, Ms. Price, and did not verify her work.

Additionally, Ms. Price listed the program manager as a reference on her employment application. The audit revealed that even though Ms. Price indicated on the application she had never been convicted of a felony, court records revealed that she had a prior felony conviction for theft and at least two prior misdemeanor convictions for worthless checks. Personnel records did not indicate that any background or reference checks other than the program manager's recommendation, were performed related to Ms. Price. As a result, management was unaware of the prior convictions.

The executive director of ETHRA acknowledged that he signed a personal loan for Ms. Price in December 2005. The executive director also verified loan documents which showed that on October 18, 2007, he obtained a line of credit in his name to pay the balance of the initial loan, and stated he used the remainder to provide a \$5,000 additional loan to Ms. Price. The loan proceeds were deposited into the joint personal bank account of Ms. Price and the program manager on October 18, 2007.

The executive director acknowledged that at the time he assumed the personal risk of the additional loan to Ms. Price, he and other management personnel had been made aware of and had investigated questionable transactions handled by Ms. Price related to one disabled client's account. He indicated that the management investigation, which included an interview with the client, had uncovered no conclusive evidence of unlawful

acts by Ms. Price. This management investigation concluded on October 19, 2007, with Ms. Price receiving a three-day suspension for failing to follow procedures. (**Note:** The Division of Municipal Audit's investigative audit revealed that from April 2, 2007, through September 20, 2007, 17 checks totaling \$7,990 were diverted from that particular disabled client's account to the unlawful personal benefit of Ms. Price.)

Executive Director Gordon Acuff stated that he was made aware of additional questioned transactions on the evening of October 19, 2007. Together with administration staff, he met with bank officials to discuss bank policies allowing checks to be cashed or deposited by other than the payee listed. While at the bank, Mr. Acuff requested that the loan be terminated. Apparently, the payoff to the bank was made by seizing the over \$4,000 balance of funds in Ms. Price's joint bank account, as well as by a personal payment from Mr. Acuff.

RECOMMENDATION:

The board should review the personnel policy regarding conflicts of interest. The policy should address alternative controls needed when personal and financial relationships between supervisors and subordinates arise that create even the appearance of a conflict of interest that could affect independence and objectivity. In addition, the board should consider required independent background checks for every employment applicant who will potentially handle money or other assets.

MANAGEMENT'S RESPONSE:

Officers of the Board of Directors:

We, the officers of the Board of ETHRA and Policy Council members, fully concur with all of your findings of the audit from July 1, 2006, through October 31, 2007, and will see that your recommendations are carried out by ETHRA staff. Our first task is to have an internal auditor that will answer directly to the board and policy council members at monthly meetings.

Executive Director:

I concur with fiscal director.

Fiscal Director:

I concur. The following will be completed, with the person in the listed position taking responsibility for the implementation.

The Human Resources Director will:

- Require and document reference checks on all positions prior to employment

- Perform background checks on either all employees or at least for key positions and where money is handled
- Review and revise Conflict of Interest Policy including disclosure of personal relationships, such as household members
- Revise Personnel Policies related to “significant others”
- Determine appropriate time frames for updating background checks and conflict statements.

2. **FINDING: Inadequate supervisory review of financial transactions**

Management failed to properly supervise and review financial transactions related to the Representative Payee Program. As noted in the Legal Issue, the proceeds of at least 130 checks totaling over \$53,000 were unlawfully obtained by a former employee for her personal benefit. This apparent misappropriation continued without detection for over two years.

One manager stated that she reviewed all check requests and occasionally asked follow-up questions of the program manager. However, she stated she relied on the program manager’s responses, without verification. Likewise, the program manager stated that she trusted the former employee and did not verify any financial transactions. As a result, no one routinely reviewed canceled checks, and no one reviewed client files to ensure that sufficient documentation was retained to determine that program clients received the benefit of all payments. In addition, although the accounting department maintained a computerized record of collections and disbursements for each client, these records were not routinely reviewed to determine if transactions appeared reasonable.

ETHRA management stated that single checks greater than \$500 required a special approval process. However, management allowed payee program employees to charge to the same client’s account sequential multiple payments of \$500 or less without requiring authorization. We noted several instances in which two or more \$500 checks were issued sequentially on the same day to a single Representative Payee Program client. In fact, 32 of the misappropriated checks issued to or on behalf of disabled clients or veterans were for exactly \$500. An additional 18 exceeded \$500. We were unable to find documentation that management personnel questioned these amounts. (**Auditor’s Note:** we recognize that some clients may have needed separate checks for separate purposes in order to follow a personal budget. Under those circumstances, the stated reasons for separate payments should be fully documented in the client’s file.)

In addition, the audit revealed that several clients received large back payments of social security and/or disability benefits, resulting in large balances in their accounts. Because these large payments were generally not considered by representative program staff when preparing client payment plans, they generated an increased risk of undetected inappropriate use. Also, auditors noted several instances in which significant account balances remained in the accounts of clients who had changed representative payees,

were being taken care of by other public institutions, had relocated with no forwarding address, or had died. Management failed to ensure that these balances were remitted to the Social Security Administration or other appropriate agencies in a timely manner. As a result, these balances remained accessible for use and were also at greater risk for undetected, inappropriate use. We located no documentation that management was aware of or took any action to enhance safeguards when unexpected payments were made to clients or when balances remained after the representative payee relationship was terminated.

Finally, in a letter from ETHRA's long-term care ombudsman, dated January 11, 2006, the executive director and program manager were informed of alleged problems regarding Ms. Price related to the account of a client who had passed away at the end of October 2005. However, there was no documentation or indication that the executive director, any other senior manager, or the program manager reviewed the client's account which clearly showed unusual payments, including a \$1,476 check payable to the program manager, issued after the client had been transferred to a nursing home. The investigative audit revealed that a total of \$2,523 was apparently misappropriated from this client's account in September and October 2005, while he was residing in the nursing home. The program manager denied knowledge of all of the misappropriated checks and stated that her endorsement on the \$1,476 check had been forged. It should be noted that the misappropriation related to this client occurred earlier than any other discovered in this investigative audit.

An inadequate management review finding was mentioned in the previous investigative audit. In his response to the finding, the former fiscal director responded:

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 ... the program manager to validate every payment request before it is uploaded to the accounts payable system.

As noted previously, the program manager acknowledged that she did not oversee or verify any of the work of the program specialist under her supervision.

ETHRA management further responded to the previous investigative audit with the hope that a new computer software system would enable the payee program manager to input the original spending plan developed for each recipient and that variations on that spending plan would be monitored by exception. Management responded that

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 limited staff in accounting. However, through exception reporting and random or rotated review, changes in

spending can be addressed by [the representative payee program manager].

Management was unable to provide any documentation that exception reporting and random or rotated review had been implemented.

The *ETHRA Operations Manual* requires that “[c]anceled checks are periodically examined by someone other than the person who prepares them.” The Social Security Administration’s *Guide for Organizational Representative Payees*, recommends that organizations flag the financial accounts of Representative Payee Program clients when conserved funds reach a predetermined limit. The guide also states, “You must have internal controls in place to ensure the integrity of your financial records.”

RECOMMENDATION:

We reiterate the recommendation in our previous report emphasizing management’s responsibility for the proper, effective, and efficient use of agency funds. The executive director should ensure that a periodic and independent review of transactions is regularly conducted by a supervisory/management staff person at least one level above the Representative Payee Program manager. The individual conducting the review should focus on high-risk transactions, including documentation and support for those transactions, and ensure that all questioned transactions are conclusively resolved. This management review, and conclusive resolution of all questioned transactions, should be documented. Client accounts should be flagged and monitored when conserved funds reach a predetermined limit. Under limited and special circumstances, the agency may separate payments to clients in order to help certain clients follow a budget. However, the practice of splitting payments for the sole purpose of avoiding review is unacceptable.

MANAGEMENT’S RESPONSE:

Officers of the Board of Directors:

We concur with your findings and will demand that the executive director carry out your recommendations as outlined in your audit. Again, an internal auditor will report all findings back to the officers of the ETHRA board as well as policy council members at monthly meetings.

Executive Director:

I concur with fiscal director.

Fiscal Director:

I concur. The following will be completed, with the person in the listed position taking responsibility for the implementation.

The Resource & Development Director will:

- Retain notes referencing questions on pay requests
- Revise timing of check issuance to incorporate review of balances and documentation prior to release
- Establish policy for documentation of high-risk transactions
- Develop procedure to identify deceased, clients receiving back payments, change in payees, and other major changes
- Development documentation standards. These will include notations in the client file for when writing several checks per week or month to one client for separation of food, personal allowance, and special requests is necessary.

The Fiscal Director will:

- Assign and oversee a staff accountant who will prepare monthly accounting reports for program manager and administrative review
- Develop a system of exception reporting, including expenditures over \$500
- Establish an internal audit position and process to ensure all policies are continuously implemented.

Program Manager:

No longer employed at ETHRA.

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

ETHRA management failed to ensure that job responsibilities were adequately separated. Two employees in the Representative Payee Program were allowed almost total control over financial transactions related to their assigned clients, apparently with minimal or no supervision. 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 had access to completed checks processed by the accounting department. Also, they maintained the only keys to the post office box dedicated to the Representative Payee Program for which refund checks and other client-related correspondence were received. As noted in the Legal Issue, former payee program employee, Robin Price, intercepted and diverted the proceeds of ETHRA checks made payable to clients as well as some vendor refund checks.

In his response to this issue in our previous audit, the former fiscal director stated that the program manager had been required to authorize all disbursements for SSI recipients assigned to ETHRA. In addition, he stated that all checks were to be mailed and that "... completed checks will not be distributed to staff unless absolutely necessary. These necessary cases will be logged and reviewed regularly."

As noted in Finding 1, the payee program manager acknowledged that because she trusted Ms. Price, she did not review and/or authorize disbursements requested by Ms. Price. In addition, payee program employees were allowed access to completed checks which Ms. Price was able to transact. Although a log-out system had been implemented, none of the misappropriated checks were included on the log, and there was no documentation that the log was regularly reviewed by management personnel.

The Accounting Section of the *ETHRA Operations Manual* requires that

The Receptionist opens mail that may contain checks and receives any payments of currency. The receptionist places a restrictive endorsement on incoming checks and prepares a pre-numbered, two-part cash receipt.... There is segregation of duties to the extent possible in collections, billings, receivable records, approving, recording, and access to other accounting records.... There are proper controls with the depositories to prohibit individuals cashing any check payable to the organization.... Checks are mailed promptly. Any undelivered or returned checks are stored in a locked file in the Accounting Department awaiting further disposition.

Accounting and Financial Reporting for Other Governments Receiving Grant Funds in Tennessee defines and describes fundamental concepts regarding internal control for individual organizations, including requirements for adequate separation of duties.

RECOMMENATION:

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 and mail. 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. As also stated previously, the periodic review should be assigned to a supervisory/management staff person at least one level above the Representative Payee Program manager.

MANAGEMENT'S RESPONSE:

Officers of the Board of Directors:

We concur with your audit findings and will demand that the executive director carry out your audit recommendations. Again, we will ensure that the internal auditor reports all findings and that those will be reported directly to the officers of the ETHRA board as well as all policy council members at our monthly meetings.

Executive Director:

I concur with the fiscal director.

Fiscal Director:

I concur. The following will be completed, with the person in the listed position taking responsibility for the implementation.

The Resource & Development Director will:

- Reevaluate the use of a post office box for the payee program and reassign access. The mail will be obtained by persons outside of the payee program, and follow agency sorting and distribution policies.
- Retain the notation of questions and other written documentation to show review and approval by program manager and administrative staff. Previously, the transactions were reviewed and questions were asked regarding unusual requests.

The Fiscal Director will:

- Update Operations Manual for changes that have been made in accounting procedures, such as:
 - All payee checks (since 10/07) once prepared for release by accounting staff, are metered and taken directly to an outside mailbox by receptionist or accounting staff
 - Checks cannot be written to a payee staff person for client-related expenses (since 10/07)
- Establish internal audit process and position to monitor adherence to policies and procedures.

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

ETHRA employees failed to maintain adequate supporting documentation for many disbursements charged to client accounts. No documentation was located in client files to support many of the checks issued directly to ETHRA employees purportedly for cash, goods or services to benefit clients, or for checks issued to some vendors for gift cards or other items. In addition, documentation was insufficient for many disbursements for housing, utilities, and other routine expenses.

The Social Security Administration's *Guide for Organizational Representative Payees*, requires that a representative payee keep accurate records of the use of the payee's money for at least two years. Page 10 of the guide also requires the representative payee to:

Keep written records of all payments received from SSA [Social Security Administration], bank statements and cancelled checks, receipts for rent, utilities, and major purchases made for the beneficiary to support how the funds were spent and/or saved on behalf of the beneficiary. For example, if you withdraw \$100 from the beneficiary's account and buy an \$80 item, then there must be a receipt for the \$80 and an accounting of the \$20 left over. Keep these records for at least two years.

The signed payee program agreement between the client and ETHRA included a budget form to set forth anticipated monthly expenditures. However, auditors noted numerous instances in which the form was not completed and included in the client's file. In addition, payee program employees apparently did not revise the initial plans when changes in expected monthly expenditures occurred.

Management's response to this finding in our previous investigative audit stated that it was the program manager's responsibility to ensure that all payment requests were properly documented. In addition, management stated that they intended to develop an internal review process to randomly review documentation for recipient payments. We found no documentation that this planned corrective action had been implemented.

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 the responsibility for ensuring that adequate supporting documents are obtained and maintained in the agency's files in a manner that can easily facilitate their review. All checks issued to payee program employees for the purpose of obtaining cash, goods or services to be provided to clients should be scrutinized by a management employee at least one level above the program manager. This responsible individual should ensure that documentation is adequate to determine the client received the benefit of the proceeds of these checks. In addition, each client file should include an up-to-date plan of anticipated monthly expenses, with approved vendors and applicable account numbers noted. This plan should be adjusted when necessary and documentation of the adjustments retained in the file.

MANAGEMENT'S RESPONSE:

Officers of the Board of Directors:

We fully concur with the audit findings and will demand that all recommendations be fully enforced and carried out as recommended by the audit. Again, the internal auditor will ensure all recommendations are enforced by staff and all findings be reported to ETHRA officers as well as policy council members on a monthly basis.

Executive Director:

I concur with the fiscal director.

Fiscal Director:

I concur. The following will be completed, with the person in the listed position taking responsibility for the implementation.

The Resource & Development Director will:

- Supervise separation of client files, establishing (file 1) a permanent file with budget plan and revisions, along with SSI agreements, (file 2) a file for health and other documents, and (file 3) documentation of transactions and payments
- Formalize the budget plan process. Currently, a budget plan for each participant is completed at intake and modified using a monthly spreadsheet
- Establish a written policy and a formal understanding for documentation, including a tracking system for any missing documents.

The Fiscal Director will:

- Investigate possibility of importing client budgets into the accounting system
- Establish internal audit process and position to monitor adherence to policies and procedures.

Program Manager:

No longer employed at ETHRA.

5. **FINDING: Lack of physical controls over and inadequate procedures related to checks**

The ETHRA payee program employees responsible for requesting checks had physical access to those checks after they were completed. As a result, a former employee was able to intercept, transact, receive the benefit of and/or personally retain the proceeds of at least 130 checks payable to clients, banks, credit card companies, loan companies, and utility companies, and at least one reimbursement check payable to ETHRA, without timely detection, as noted in the Legal Issue.

According to discussions with ETHRA personnel, completed checks were sometimes stored in an unlocked desk accessible to most employees. In some instances, payee program employees retrieved completed checks directly from accounting department employees. Occasionally, large quantities of completed checks would be turned over to

payee program employees for mailing. Payee program employees also had access to completed checks placed in ETHRA's mailroom.

Auditors also located intact, unprocessed, issued checks in a client file. These checks were shown as outstanding in the accounting department records. The file included no explanation as to why these checks were in the client's file at ETHRA.

The former ETHRA fiscal director responded to this finding in the previous investigative audit by stating:

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 [the program manager] 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.

Although the accounting department maintained some documentation related to checks picked up by third parties, the department had no record or documented review for most of the client and other program checks that were retrieved from the accounting department by payee program employees.

The *ETHRA Operations Manual* requires that "Checks are mailed promptly. Any undelivered or returned checks are stored in a locked file in the Accounting Department awaiting further disposition."

Accounting and Financial Reporting for Other Governments Receiving Grant Funds in Tennessee, page 30, requires recipients to ensure that "[i]nventories 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 disabled clients and veterans whose accounts are charged, agency management should ensure that employees who are responsible for requesting checks do not have access to completed checks. Client and vendor checks should be mailed directly to the client and vendor. Voided checks should be stamped or marked void and the signature portion of the check removed. Issued and mailed checks that do not clear ETHRA's bank account within a reasonable time should be properly resolved within the accounting system and a new check issued or the amount restored to the appropriate client's account balance.

MANAGEMENT'S RESPONSE:

Officers of the Board of Directors:

We concur with your audit findings and will demand that the executive director and ETHRA staff carry out your recommendations. Further, all financial transactions are to be carried out in your recommended handling of bank accounts, checks, disbursements and Accounting Department. Once again, the internal auditor will be responsible that these recommendations will be enforced and all findings will be reported to the officers of ETHRA as well as the policy council members on a monthly meeting schedule.

Executive Director:

I concur with fiscal director.

Fiscal Director:

I concur. The recommendations include processes already in place.

The Resource & Development Director will:

- Consider changing the date checks are written for the payee program based on date money received; i.e., checks would only be authorized once client's money is deposited by Social Security
- Develop policy regarding exceptions, including a definition of exception and the specific process to be followed for implementation.

The Fiscal Director will:

- Establish internal audit process to monitor adherence to policies and procedures, such as:
 - Voided checks are stamped and marked void with signature removed
 - All checks are processed, stamped and taken to exterior mail receptacle by the receptionist or accounting staff
 - All checks are (and have been) mailed directly to the client or vendor (with few exceptions)
 - All completed checks (since 10/07) not mailed immediately are stored in the safe
- Establish policy that all checks, after 90 days, will be voided monthly, with standard procedures for reissue. The checks currently include a notation "void after 90 days"
- Establish that the mail in post office box will be obtained by persons outside of the payee program, and follow agency sorting and distribution policies. Any returned checks are to be delivered to accounting immediately.

General Recommendation by ETHRA:

After reviewing the findings of the SSI Payee Program audit, administrative staff has assessed the resources and the actions needed to adequately safeguard client funds and provide documentation (receipts) where the clients make their own purchases. This program creates about 2,000 checks per month out of 3,900 for the entire agency each month. It is a high maintenance program with limited resources to support the management of client services (payment of their rent, utilities, weekly allowance, and other necessities from their personal funds).

Because there are limited financial resources to administer this program and a high risk for fraud, administrative staff recommends the following actions:

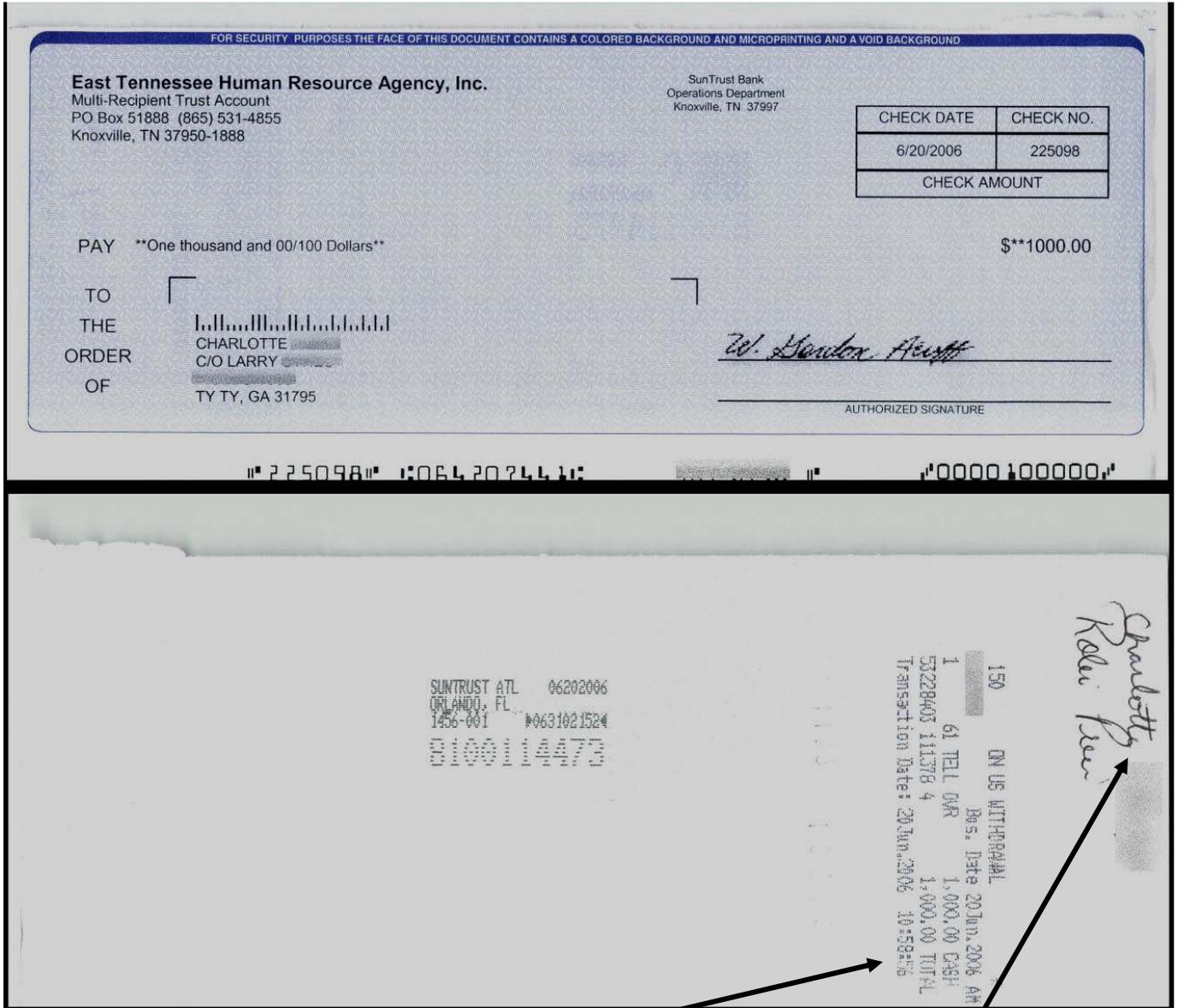
Evaluate the feasibility of continuing the payee program—We will assess the available resources for meeting the requirements of the program, including the controls and client needs, to determine the feasibility of continuing the payee program.

Add an internal auditor to the administrative team by March 2009—We will utilize this position to fine tune, monitor, and strengthen the processes used to provide services throughout all of the programs at the agency.

EXHIBITS

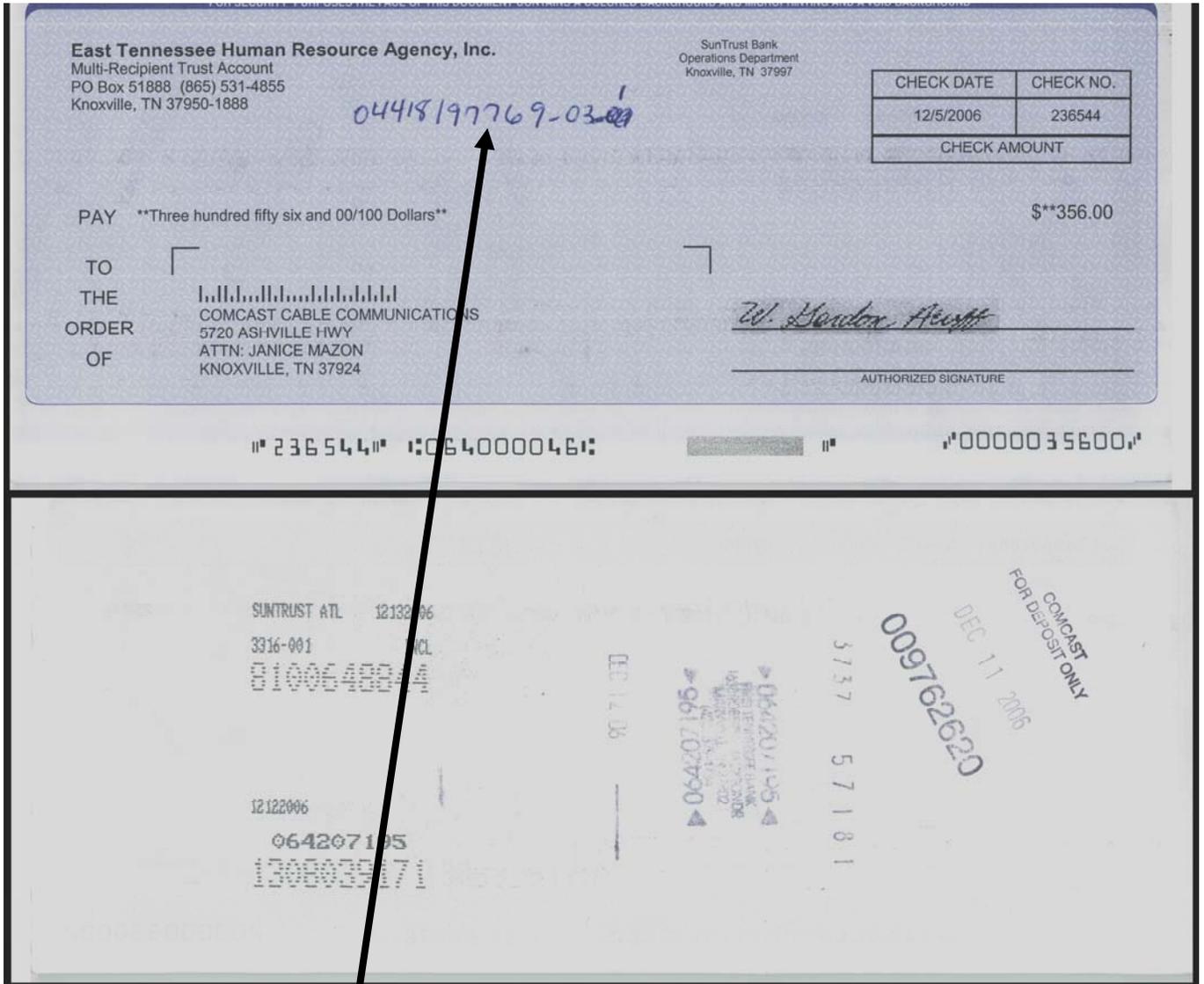
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Exhibit 1

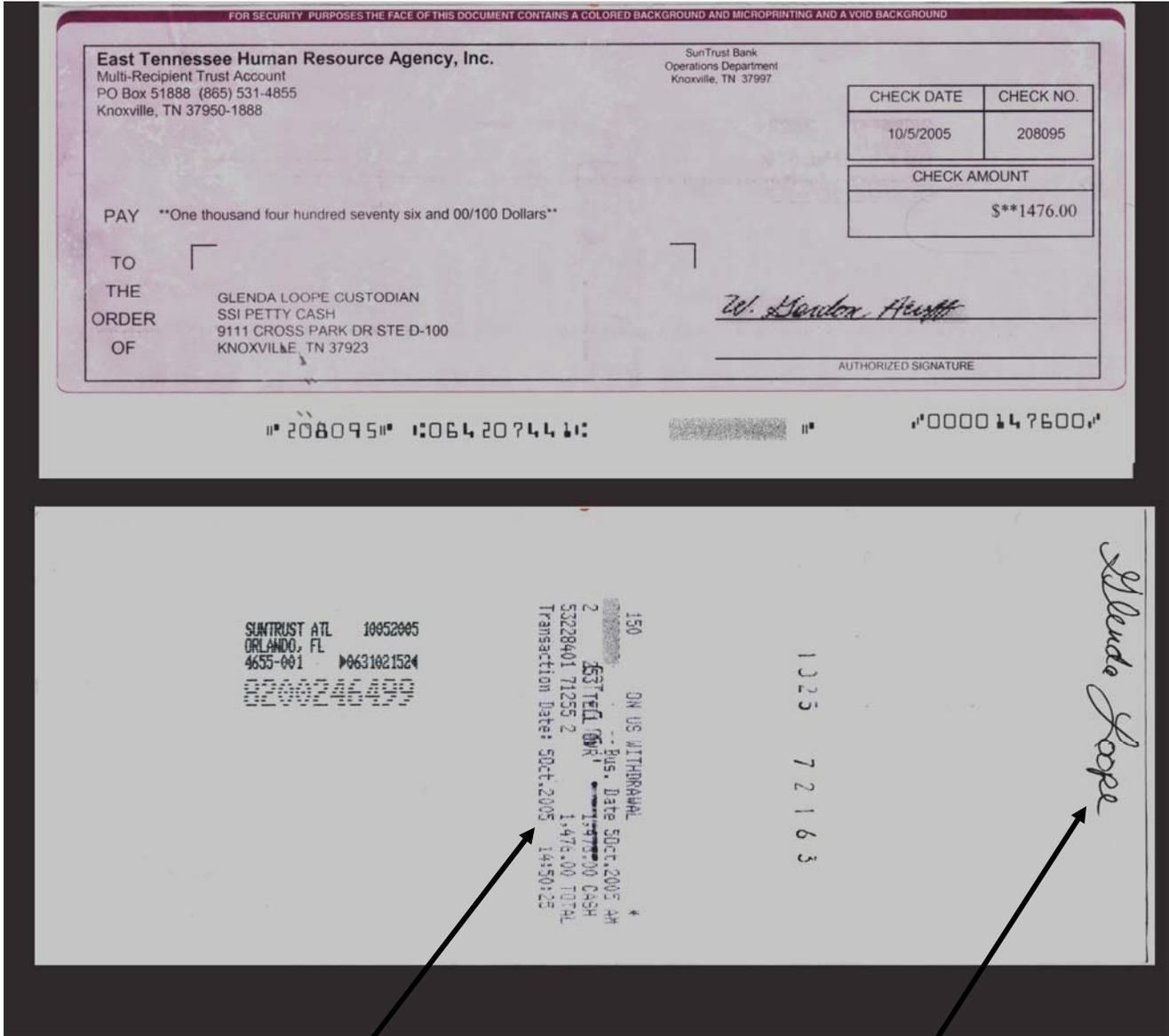


Notation indicates that check was cashed.

Client endorsement apparently forged by Ms. Price.



The account number shown was listed in the name of the SSI Representative Payee program manager, who shared a residence with Ms. Price.



Notation indicates that check was cashed.

Program manager endorsement apparently forged by Ms. Price.

THIS DOCUMENT HAS AN ARTIFICIAL WATERMARK PRINTED ON THE BACK. ABSENCE OF THIS FEATURE WILL INDICATE A COPY

Bank of Tennessee
P.O. Box 4980
Johnson City, TN 37602
(423) 378-9500

VOID IF NOT CASHED WITHIN ONE YEAR
OFFICIAL CHECK

25-1554
440

Check No. 185022
Date: 2/16/2007

NOTICE TO CUSTOMER
The purchase of an INDEMNITY BOND from your insurance Co
will be required before any Official Check of this Bank will be
replaced or refunded if lost, misplaced or stolen

\$302.17

PAY Three Hundred Two Dollars And Seventeen Cents

DRAWER BANK OF TENNESSEE

Remitter: ROLLER RUSS

Denise Gardner
AUTHORIZED SIGNATURE

ISSUED BY MONEYGRAM PAYMENT SYSTEMS, INC
DRAWEE HUNTINGTON NATIONAL BANK, COLUMBUS, OH

TO THE ORDER OF MISS [REDACTED]

185022 10440155431 0000030217

SUNTRUST ATL 02262007
ORLANDO FL
1588-348
6200380035
5 07

1022 69677

FOR DEPOSIT ONLY

Deposited into joint personal bank account of Ms. Price and program manager.

Exhibit 5

East Tennessee Human Resource Agency, Inc.
 Multi-Recipient Trust Account
 PO Box 51888 (865) 831-4833
 Knoxville, TN 37950-1888

First Tennessee Bank
 Operations Department
 Knoxville, TN 37927

CHECK DATE	CHECK NO.
11/28/2008	211008
CHECK AMOUNT	
\$500.00	

PAY "Five Hundred and 00/100 Dollars"

TO THE ORDER OF FIRST TENNESSEE BANK
 121 KIRKWOOD
 KNOXVILLE, TN 37914

Ed. Gordon, Account
 AUTHORIZED SIGNATURE

211069# 106420744 11# #0000050000#

1128296
 064207195
 1065975110

Ed. Gordon, Account
 2121 21232

John Lee, Trust
 for the
 1749

FIRST TENNESSEE

DATE 11/28

CUSTOMER NAME _____

STATEMENT ADDRESS _____

CITY, STATE, ZIP _____

CHECKING ACCOUNT NUMBER 1749

CHECKING ACCOUNT DEPOSIT

CURRENCY COIN CHECKS

SUBTOTAL → 500.00

LESS CASH RECEIVED → 480.00

TOTAL \$ 20.00

15103#040 11# 1749# 20 #0000002000#

\$480 "less cash received" apparently retained by Ms. Price.

\$20 deposited into client bank account.