



Mayor Teresa Ann Isaac

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Division of Internal Audit

INTERNAL AUDIT REPORT

DATE: March 10, 2006

TO: Teresa Ann Isaac, Mayor

CC: Milton Dohoney, Chief Administrative Officer
Alayne White, Commissioner of Social Services
Cheryl Lewis, Director of Adult Services
Dewitt Hisle, Audit Board Chairman
Dr. David Stevens, Council Budget & Finance Committee Chairman

FROM: Bruce Sahli, Director of Internal Audit

RE: Adult Services Financial Assistance Programs Internal Audit

Background

The Division of Adult Services provides Emergency Financial Assistance (EFA) to individuals and families for payment of rent and/or utilities to prevent eviction or utility cut-off. Each applicant must sign an agreement for repayment of the interest-free loan in small monthly payments. To be eligible for this assistance, applicants must have lived in Fayette County for at least 30 days, must have a temporary complete disruption of income, must have utilized all personal resources in an effort to pay eligible debts, and must be able to verify that new income is pending. Applicants may also be assisted for reasons of protection even if they have a regular monthly income, e.g. as in the case of potential homelessness for a disabled person. For FY 2006, LFUCG budgeted \$286,000 for the EFA program.

In addition, individuals or families with incomes at or below 125% of the current poverty level can apply for partial payments of Sewer User Fees and Landfill User Fees (hereafter the Sewer & Landfill Program), as well as relocation assistance. The Sewer & Landfill Program is administered under guidelines set forth by Urban County Ordinance. For FY 2006, LFUCG budgeted \$45,000 for the Sewer & Landfill Program.

Each week, LFUCG Accounting mails checks for assistance payments directly to the vendors and landlords to whom the recipients' debts are owed, as authorized by the Division of Adult Services.

In October 2005 Adult Services Director Cheryl Lewis requested an examination of these programs due to irregularities her office had noted in payments made to a Sewer & Landfill Program recipient. This audit was conducted in response to that request.

Scope and Objectives

The general control objectives for the audit were to determine that:

- Sufficient management oversight exists to provide reasonable assurance financial assistance programs are properly administered
- Recipients of financial assistance comply with eligibility standards
- Financial assistance payments made to recipients are properly calculated

Statement of Auditing Standards

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

Audit Opinion

In our opinion, the controls and procedures did not provide reasonable assurance that the general control objectives were being met. Opportunities to enhance controls are included in the Summary of Audit Findings.

SUMMARY OF AUDIT FINDINGS

Inadequate Management Review of Sewer & Landfill Program

As described in the Background section of this report, there are two primary economic assistance programs being offered to qualified recipients, the EFA and the Sewer & Landfill Program. Our testing of EFA program transactions and discussions with Adult Services personnel indicated that, on the whole, the EFA program appeared to have sufficient management oversight. However, similar testing and discussions clearly indicated insufficient management oversight of the Sewer & Landfill Program. Counselors are responsible for administering the EFA program, while clerical staff has been responsible for administering the Sewer & Landfill Program. The results of insufficient management oversight in the Sewer & Landfill Program are evident in subsequent findings detailed in this report.

Intentional Overpayment of Recipient's Account

As noted in the Background section of this report, the audit was conducted at the request of the Adult Services Division Director after her office had noted irregular payments being made to a Sewer & Landfill Program recipient. We examined all twelve Sewer & Landfill Program payments made on behalf of this recipient and noted there were no Kentucky American Water Company (KAWC) invoices in the related file to support any of the payments. We were able to obtain eight supporting invoices directly from KAWC from which we determined that an Adult Services employee (who resigned from LFUCG just prior to the beginning of the audit fieldwork) overpaid \$188.62 on the recipient's account with KAWC; i.e., the employee paid the entire amount of the KAWC invoices instead of properly paying partial amounts as dictated by LFUCG Ordinance.

We also noted that this former employee correctly paid 38 additional sewer & landfill invoices not affiliated with this particular recipient's account, indicating the former employee clearly understood proper payment procedures. It therefore appears that only one recipient's sewer & landfill costs were intentionally overpaid.

Missing or Incomplete Sewer & Landfill Program Case Files

Many of the files related to Sewer & Landfill Program payments selected for detail testing were either missing or contained incomplete information necessary to properly process an application for financial assistance. Notable issues related to Sewer & Landfill transactions were the absence of any supporting documentation for 78 of 133 (58.6%) transactions selected for testing. Of the 55 transactions tested that did have some documentation, 35 (63.6%) payments were made to recipients who did not provide sufficient information to determine eligibility, nine (16.4%) payments were made to recipients who did not fully complete the related application, and ten (18.2%) payments were made to recipients whose application lacked evidence of written approval by authorized Adult Services personnel. It was also noted that most of the Sewer & Landfill case files did not contain KAWC invoices to support the calculated partial payment amounts, due to an accepted practice of allowing recipients to simply report the amount of their KAWC bill to Adult Services via LexCall. It was therefore necessary to obtain a significant number of KAWC invoices directly from the company in order to complete our detail testing.

EFA Rent Assistance Processing Exceptions

We tested 50 EFA rent payments and noted that three payments were made without documentation to support the recipient's eligibility, four payments were made without obtaining the required repayment agreement (or the agreement was not executed by the payment recipient), and two payments exceeded the counselor's payment approval authority. As rent payment recipients can receive more than one rent assistance payment during the calendar year under certain circumstances, we also tested 42 transactions that represented additional rent payments. From this sample, we noted that 12 (28.6%) were paid without an amended repayment agreement; i.e., the repayment agreement noted the amount

of the original rent payment but did not reflect additional amounts owed LFUCG as a result of subsequent rent assistance payments. We also noted that 15 additional rent payments (35.7%) were made without the Division Director's written approval (current procedures only require verbal approval).

Recommended Corrective Actions

Without the necessary records, Adult Services cannot ensure that only eligible participants are benefiting from their economic assistance programs, or that payments to those recipients are for the appropriate amounts. The findings identified in the previous sections of this report are essentially interconnected, identifying a need for a more thorough evaluation of the applicant's eligibility and for improved management oversight of payment activity.

It is recommended that appropriate levels of management review be provided for all types of assistance payments made by the Division of Adult Services. At a minimum, this should include random review of files by management to provide reasonable assurance all documents necessary to properly process assistance payments are present at the time of payment. It is also recommended that Adult Services post all processed applications for payment into an excel spreadsheet or similar program on a daily basis. From this program, a weekly report detailing pending payment activity should be produced that the Division Director reviews before authorizing their payment by the Division of Accounting. This Adult Services function should then be incorporated into the STARS Accounts Payable process once its rollout is completed.

Procedures should also be developed to ensure all pertinent documents are obtained for the clients files (including proof of income and third party invoices from which payments are calculated), making note of any supporting documents that are still pending in order to ensure a timely follow up. In those instances where the Director's approval is required to authorize assistance payments, the approval should be in written form in order to clearly demonstrate an appropriate level of management oversight.

Division of Adult Services Management Response:

Let me first start by thanking you and your staff for responding to my request for an internal audit of the Division of Adult services in a prompt manner. Your staff was wonderful to work with and very accommodating during our transition period.

As a result of the audit the following changes will take place effective immediately:

Landfill/Sewer Program

- Administrative personnel will no longer process applications for the landfill and sewer program. Applications are completed by eligibility counselors, social service coordinator, social workers, or division director.
- In order to process an application all applicants must present current months water bill, proof of total household income, picture id, and social security cards.

- Completed applications are forwarded to division director for review and final approval.
- Upon approval by division director file is forwarded to administrative specialist to set up an account in the mainframe.
- Once entered in the mainframe administrative specialist files application and related materials. All landfill/sewer files are maintained in file cabinet separate from other Emergency Financial Assistance (EFA) files.
- When clients call in for monthly deductions staff assistant will transfer call to eligibility counselor, social services coordinator, social worker, or division director to process monthly deduction.

Emergency Financial Assistance (EFA)

- Eligibility counselors place vouchers for payment request by close of business each day in a folder to be processed by administrative specialist.
- At the start of each morning administrative specialist prepares a daily spreadsheet of previous day activities.
- Spreadsheet is forwarded to division director (or social services coordinator in the absence of division director) daily for review and approval. All vouchers must be reviewed and approved by division director before information is processed by accounting. All vouchers will be initialed by division director indicating review and approval.
- All EFA files must contain a picture id, proof of total household income, social security cards for all individuals living in the home, and any other third party documentation depending on the nature of assistance. All information must be contained in the files in order for payments to be processed.
- Staff clerk will review all files to make sure necessary documentation is contained in each file.
- Division director will randomly select files to review on a monthly basis to ensure all necessary documents were present at the time assistance was provided.
- If eligibility counselor is seeking the maximum amount of assistance (maximum is based on budget) he/she must present case to division director for approval. If approval is given by director eligibility counselor must document approval in case notes and division director will sign off on voucher along with eligibility counselor's signature.
- All EFA files must contain a repayment agreement based on the total amount of assistance client receives.
(Please note: a repayment agreement does not guarantee repayment. At this time Adult Services does not have policies and procedures in place for collection or penalties for non-payment).
- Administrative specialist has been working with the STARS team to ensure successful implementation of the accounts payable process.

The audit pointed out that landfill and sewer case files did not contain invoices from Kentucky American Water Company (KAWC) to support calculated payments. There are 300 individuals currently participating in the landfill and sewer program. It is the individual's responsibility to call and request the deduction each month. The counselors use a rating sheet to determine monthly

deductions. If reported amount appears inflated the counselor requests a copy of the bill from the water company to determine if there are other problems, but otherwise those bills are not requested to process monthly deductions. The division director will review landfill and sewer payment activity for reasonableness, and will request KAWC invoices for support if payments appear elevated.

It is the divisions hope that these changes will reflect sufficient management oversight for the financial assistance programs that are administered in the division. If you have any further questions, comments or suggestions please give me a call.