

DIVISION OF INSPECTOR GENERAL



SHARON R. BOCK
Clerk & Comptroller
Palm Beach County

Audit Services & Public Integrity Units

2010

***ANNUAL
REPORT***

Roger Trca CPA (AZ), CIG, CIA
Inspector General & Audit Director
Division of Inspector General
February 11, 2011



SHARON R. BOCK
Clerk & Comptroller
Palm Beach County

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The Honorable Sharon R. Bock, Esq.
Clerk & Comptroller
Palm Beach County

On behalf of the Division of Inspector General, I am pleased to present our 2009-2010 Annual Report. This report summarizes the objectives and accomplishments of the Division of Inspector General for the Fiscal Year ended September 30, 2010.

We want to ensure that you are satisfied with the audit and investigative services provided to the Clerk & Comptroller's office. This Annual Report is also designed to assist Clerk management in providing recommendations for the annual audit plan that is completed every September. The audit plan is subject to change throughout the year as risks and vulnerabilities arise. Please feel free to contact us anytime to request a review of an area or function that you believe is desirable.

The Division of Inspector General staff takes pride in their contribution to making the Clerk & Comptroller's office and County government operate as efficiently and effectively as possible. The staff of the entire Division deserves credit for their accomplishments.

Respectfully submitted,

Roger Trca CPA (AZ), CIG, CIA
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INTRODUCTION

Summary of Performance

The mission of the Division of Inspector General is to provide independent, objective auditing and investigative services designed to add value, improve the Clerk & Comptroller and County government operations and preserve public trust. The division is comprised of the Audit Services Unit and the Public Integrity Unit.

The fiscal year ending September 30, 2010 was a period of continued productivity for the Division of Inspector General. The Division issued 13 reports and memos, which included audits, reviews, investigations and inspections. These reports and memos provided 42 opportunities for improvement, containing 84 recommendations.

An Inspector General function strengthens government by promoting strong internal controls, deterring fraud, and finding cost savings.

These reports and memos identified over \$820,000 in potential lost revenues, recoveries, cost avoidance or other economic impact to the Clerk's office, County departments and to citizens. Departmental management proactively committed to the implementation of our recommendations. To further support the Clerk & Comptroller's mission, the Finance Payables team has identified over \$20 million in savings in the last six years.

Our Public Integrity Unit (PIU) received information from a variety of sources, including three tips from the Ethics Hotline, which resulted in conducting nine investigations, inspections and reviews as well as referring eight cases to federal, state, county and other agencies.

The Division began preparations to become an Accredited Office of Inspector General by the Commission for Florida Law Enforcement Accreditation (CFA). Final approval of accreditation is anticipated in 2011.

The Division successfully expanded the certifications of the individual team members, earning one or more of the following designations: Certified Inspector General, Certified Inspector General Auditor, Certified Inspector General Investigator and Certified Fraud Examiner.

Background

The Clerk & Comptroller is an elected constitutional officer who derives her authority and responsibilities from constitutional and statutory provisions.

The Constitution of the State of Florida, Article VIII, Section 1.(d), provides for the election of certain County Officers including a Clerk of the Circuit Court (Clerk). The latter part of this section specifies that, ". . . the clerk of the circuit court shall be ex officio clerk of the board of county commissioners, auditor, recorder and custodian of all county funds." Section 16, Article V, State Constitution, also specifies that the Clerk shall have the duties quoted above. One of the Clerk's responsibilities enumerated in law is to act in the capacity of Auditor.

According to the legal authority and responsibility cited above, the Clerk established the Audit Services Division as an independent unit in 2005 to fulfill the responsibilities of the office as they relate to auditing functions.

In May 2009, the Clerk & Comptroller's Audit Charter was renamed as the Inspector General Charter, resulting in a title change from the Audit Services Division to the Division of Inspector General (IG). Employees in this division report to the Inspector General & Audit Director position.

To provide for the independence of the division, the Inspector General & Audit Director reports functionally and administratively to the Clerk & Comptroller. As an independent elected official, the Clerk & Comptroller is directly responsible to the citizens and taxpayers of Palm Beach County. The Division has no direct responsibility to or authority over any area subject to its audit, review and investigation. Therefore, the Division is organizationally independent from those areas that it will be auditing, reviewing and investigating. The Inspector General & Audit Director has the authority and responsibility to conduct audits and investigations of all agencies funded by the Clerk & Comptroller's office and County government and to issue reports.

The charter maintained an Audit Services Unit (ASU) and established the Public Integrity Unit (PIU) within the Division. The PIU conducts investigations into Clerk & Comptroller affairs, and for that purpose makes such inquiries as necessary, compels the production of books and papers, and implements appropriate investigative techniques.

Staffing, Organization and Training

The Division of Inspector General is comprised of four staff and one open position including:

- Roger Trca CPA (AZ), CIG, CIA - Inspector General & Audit Director
- Alan Bray CPA (NC & MO), CIGA, CIGI, CFE - Deputy Inspector General & Audit Manager
- Charles Mansen CIA - Audit Project Administrator (supports IG and Finance Divisions)
- Michael Bodle CIGA, CFE, CIA - Senior Internal Auditor

The Division is subdivided into the following units:

- Audit Services Unit
- Public Integrity Unit

The Division conducts audits, reviews, investigations, inspections and other projects. In fulfilling our responsibilities, we comply with the following auditing and investigating standards:

- *International Standards for the Professional Practice of Internal Auditing* of The Institute of Internal Auditors (IIA).
- *Principles and Standards for Offices of Inspector General* of The Association of Inspectors General (AIG).

These standards collectively prescribe how our audits and investigations are performed.

Professional Certifications

Staff members of the Division of Inspector General hold the following professional certifications:

- Certified Inspector General (1);
- Certified Inspector General Auditor (2);
- Certified Inspector General Investigator (1);
- Certified Public Accountant (2);
- Certified Fraud Examiner (2);
- Certified Internal Auditor (3); and,
- Certified Financial Services Auditor (1).

Professional Development & Training

The Division of Inspector General recognizes that the quality and effectiveness of its products are dependent upon a professionally trained staff. To this end, the Division allocates a portion of its resources to ensure continuing professional education as a key requirement of the aforementioned standards. The Division devoted 4.1% of its time in FY 2009-2010 to staff training which includes activities sponsored by:

- The Association of Local Government Auditors;
- The Institute of Internal Auditors, Inc.;
- The Association of Inspectors General;
- The Association of Certified Fraud Examiners; and,
- Florida Government Finance Officers Association

Training is vital to our function as it keeps us abreast professionally and current on auditing techniques, accounting and reporting practices, risk assessment, internal controls, information technology, investigative techniques, ethics, legislative changes, managerial effectiveness, and best practices.

Professional Organization Affiliations

Staff members of the Division of Inspector General are affiliated with the following professional organizations:

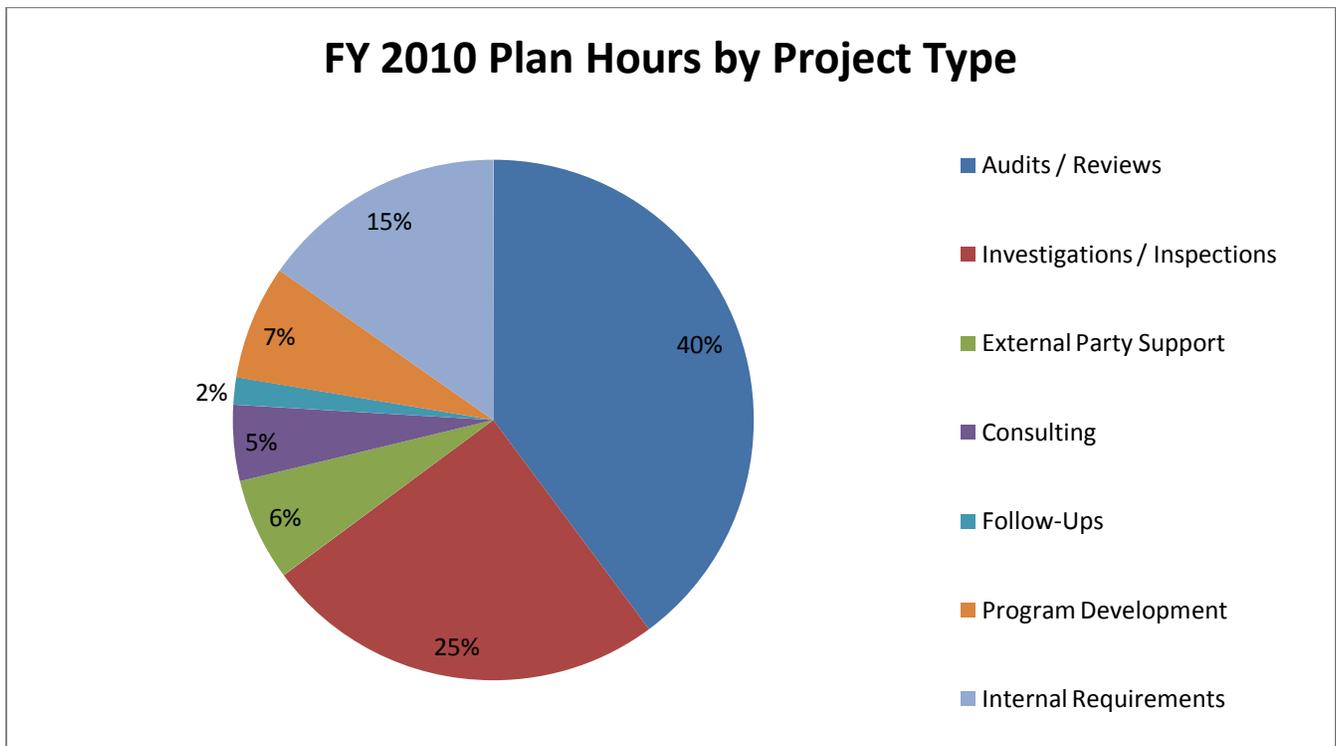
- The Association of Inspectors General;
- Florida Chapter of The Association of Inspectors General;
- The Institute of Internal Auditors, Inc.;
- The Association of Certified Fraud Examiners;
- Association of Local Government Auditors;
- American Institute of Certified Public Accountants;
- Florida Government Finance Officers Association; and,
- Various state societies of Certified Public Accountants.

Operations

Audit Selection Process

To ensure the most efficient and effective utilization of resources, it is essential that areas selected for audit be carefully considered. An annual audit plan is prepared by the Division to identify planned audits. Because of the large number of possible areas to audit and limited staff resources to audit them, a strategic risk-based audit selection process is in place. The audit plan is the result of the development of a risk model to assess risks of various operations for the purpose of indicating the need for audit. As a part of the audit selection process, we also solicit input from the Clerk, Clerk's officers and management.

The following graph depicts the types of projects that were performed in FY 2009-2010 using the available hours for the IG staff. As seen in the graph, audits, reviews, investigations and inspections collectively accounted for the largest portion (65%) of time utilization.



Division's Continuous Improvement

During FY 2009-2010, the Division undertook initiatives to improve our operations. Most notably, we began preparations to become an Accredited Office of Inspector General by the Commission for Florida Law Enforcement Accreditation (CFLA). This initiative has encompassed an update to the Division's investigative and audit manual to reflect the process and the professional standards. CFLA performed a thorough assessment in fourth quarter 2010 of all aspects of the Division's policies and procedures, management, operations and support services to determine compliance with the recognized Inspector General standards of excellence. Final approval of accreditation is anticipated in 2011. Once received, we will be only the second Clerk's office in the state of Florida to become accredited.



During the year, the Division successfully expanded the certification of the individual team members by earning one of more of the following designations: Certified Inspector General, Certified Inspector General Auditor and Certified Inspector General Investigator.

PERFORMANCE RESULTS

Productivity

The Division issued reports for seven audits & reviews and six investigations & inspections conducted during the fiscal year ending September 30, 2010.

For more detailed information, please refer to the applicable highlights starting on page 14 under the Highlighted Audit Findings heading or view the entire report by visiting our website at www.mypalmbeachclerk.com, and clicking on the link to "Inspector General & Audit".

Audits & Reviews

The objective of these projects is to provide auditees with an independent appraisal of whether desired results and objectives are achieved economically, efficiently and in accordance with prescribed laws, regulations, and policies and procedures. Our opportunities for improvement represent our philosophy to work with management to improve the delivery of government service to citizens.

During FY 2009-2010, the Division issued seven audit reports with:

- 28 Opportunities For Improvement containing,
 - 62 recommendations, which identified over \$820,000 in potential cost savings and revenue recoveries and enhancements.

Recommendations are an integral part of our audits and reviews, as this is where an opportunity for change or improvement takes place. Management has proactively committed to implementing the agreed upon actions to address the recommendations provided.

The following chart shows the status of all audits on the Annual Audit Plan for FY 2009-2010. The audit falls into one of four status categories:

- *Completed* – audit completed and report issued.
- *In Progress* – audit is in-progress and report will be issued.
- *Risk Reassessed* – As part of our continuous monitoring of the annual audit plan, some scheduled audits may have risk factors re-evaluated causing a change in the current year’s audit plan.
- *Rescheduled* – audit was rescheduled to a future fiscal year.

AUDIT / REVIEW	STATUS	REPORT ISSUED
Payroll Processing Special Review	Completed	11/20/09
Civil Court Foreclosure Assessments & Distributions	Completed	12/14/09
Criminal Court Assessments & Distributions	Completed	2/10/10
Court Operations Dismissed Traffic Cases	Completed	3/16/10
Propane & Natural Gas Service Tax Collection Process	Completed	8/11/10
Revenue Department Collections Process	Completed	8/12/10
Heritage Propane Public Service Tax Collection Investigative Audit	Completed	8/27/10
Electronic Funds Transfer Controls	Rescheduled	
Value Adjustment Board	Risk Reassessed	
Evidence	Rescheduled	
Payment Card Industry (PCI) Assessment & Controls	Risk Reassessed	
Guardianships	In Progress	

Investigations & Inspections

The objective of these projects is to conduct investigations and inspections into allegations of fraud, waste, abuse and ethical misconduct. These projects that uncover administrative wrongdoing typically identify violations of law, policy or regulations. They also identify the individuals responsible for the violations and make recommendations for administrative action. Equally important to the investigative process is the identification of internal control weaknesses.

Therefore, the reports frequently make specific recommendations to:

- Correct the identified deficiencies
- Provide guidance on the applicable laws and regulations
- Strengthen the internal control environment

When investigative findings are indicative of criminal conduct, they are presented to the appropriate law enforcement authorities for appropriate action.

The investigation disposition falls into one of three categories:

1. *Substantiated:*

- The allegations are validated and there is sufficient evidence to justify a reasonable conclusion that the actions occurred and there were violations of law, policy, rule or contract. A report is prepared.

2. *Not Substantiated:*

- The allegations are not validated and there is no sufficient evidence to justify a reasonable conclusion that the actions occurred and there were violations of law, policy, rule or contract. A report may or may not be prepared.

3. *Neither Substantiated nor Refuted:*

- The allegations are not validated and there is insufficient evidence to prove or disprove the allegations. A report is not prepared.

During the FY 2009-2010, the Division of Inspector General received information from a variety of sources that resulted in conducting nine investigations, inspections and reviews as well as the referral of five other cases to other departments and agencies. The sources included various County departments and agencies, citizens, Clerk management and employees, and news articles. Of the nine investigations, inspections and reviews, the allegations were:

- substantiated in three cases,
- not substantiated in five cases, and
- neither substantiated nor refuted in one case.

Memos were issued in six cases, with 14 opportunities for improvement and 22 recommendations.

Ethics Hotline

The Ethics Hotline was established to promote honesty and efficiency in government and promote the public's trust in government. The hotline is managed by an independent third party reporting agency – Ethical Advocate. Clerk & Comptroller management and employees are urged to immediately report, anonymously if desired, any suspected instance of fraud, waste, abuse or ethical misconduct.

Reports may be made in several convenient ways.

- Online: Create a report at www.mypalmbeachclerk.com. Click on “Employee Information & Ethics Hotline” at the bottom of the page.
- Phone: Dial 1-888-WARN-PBC.
- Mail: P.O. Box 2905, West Palm Beach, Florida 33402.
- Fax: 561-355-7050
- Walk-In: Government Center, 9th Floor, 301 N. Olive Avenue, West Palm Beach, Florida 33401.

During FY 2009-2010, the Division handled three anonymous Ethics Hotline tips. All tips were referred to the appropriate department and agency.

The fraud reporting program is critical to our efforts to combat fraud, waste, abuse and ethical misconduct as complaints provide the ability to generate leads from multiple sources. Investigations are initiated upon the receipt of credible information alleging an act of fraud, waste, abuse or ethical misconduct that falls within the Division's jurisdiction.

Recoveries and Cost Avoidance

During FY 2009-2010, the audits, reviews, investigations and inspections identified over \$820,000 (as shown on the next page) in potential lost revenues, recoveries, cost avoidance or other economic impact to the Clerk's office, County departments and to citizens. Departmental management proactively committed to the implementation of our recommendations.

PROJECT	REPORT ISSUED	POTENTIAL IMPACT	DESCRIPTION
Court Operations Dismissed Traffic Cases	3/16/10	\$24,928	Uncollected assessments See page 15
Propane & Natural Gas Service Tax Collection Process	8/11/10	\$115,286	Tax underpayments See page 16
Heritage Propane Public Service Tax Collection Investigative Audit	8/27/10	\$680,225	Tax underpayments See page 17
	TOTAL	\$820,439	

The Division of Inspector General is a good investment. Not only is the expense of having an Inspector General Division cost effective, the Division's importance extends beyond just the financial considerations. The impact of maintaining transparency and trust in local County government is invaluable. The Division staff's vigilance ensures taxpayers get a fair and honest accounting of their funds. Thus, the Division is productive and cost-effective.

Highlights of Audit Findings

The following are highlights of audits issued by the Division of Inspector General during the fiscal year ending September 30, 2010. If you would like to read the reports, please visit the Division's website at www.mypalmbeachclerk.com; click on "Inspector General & Audit".

Payroll Processing Special Review (Report issued November 20, 2009)

The limited-scope review of select payroll data maintained within the Human Resource Management System (HRMS) disclosed that payroll information was accurately recorded. The review did not identify any inappropriate duplicate payments or other inaccuracies in employee ID or social security number records that negatively impacted payroll processing. Minor discrepancies were noted in the HRMS tables but the differences did not involve records used in the production of payroll processing.

Civil Court Foreclosure Assessments & Distributions (Report issued December 14, 2009)

The review disclosed that foreclosure case filing assessment and distribution rules within the Banner Court system accurately reflected the provisions of the underlying Florida statutes. Sample testing did not identify any errors in the accuracy of assessments and distributions for each of the various foreclosure docket codes. One improvement opportunity was noted related to ensuring that changes to assessment and distribution rule tables in the Banner Court system were documented and verified prior to implementation of the system.

Criminal Court Assessments & Distributions (Report issued February 10, 2010)

The review of the legislative changes involving criminal assessment and distributions that became effective July 1 and August 3 of 2009 disclosed that Criminal Court Operations effectively implemented the changes in the Banner Court system rules tables.

No exceptions were noted in the accuracy of the assessments and distributions for the criminal cases. However, four discrepancies were noted in the assessment and distribution manual that required revision to comply with Florida Statutes and the Banner Court system rules tables. Also, opportunities existed to document the procedures used in implementing legislative changes into the system and verifying their accuracy.

Court Operations Dismissed Traffic Cases (Report issued March 16, 2010)

The review determined that staff was properly justified in dismissing the traffic cases selected for evaluation though improvement opportunities were noted in handling cases.

Court Operations did not routinely monitor whether the traffic case dismissals were justified and any related unpaid assessments were resolved timely. Use of data extraction tools identified 450 dismissed traffic cases that had outstanding balances totaling \$24,928. Clerks were not collecting the unpaid late fees timely and initiating drivers' license suspensions in some cases when appropriate. Procedures did not

require clerks to obtain and scan valid documents from defendants (e.g., drivers' license, registration, insurance) when dismissing related traffic cases. Payment plan monitoring required strengthening to ensure appropriate actions were taken in cases of non-compliance.

Propane & Natural Gas Service Tax Collection Process (Report issued August 11, 2010)

The Revenue Department focused their activities on collecting and reporting public service taxes when received but had generally not taken adequate steps to identify, monitor, document and follow up with new and existing vendors that had failed to pay the required taxes. These practices resulted in lost opportunities to collect all public service taxes and related interest and potential penalties that were owed by vendors based on Florida Statute and county ordinance. The audit identified revenue collection opportunities totaling \$115,286.

Specifically, the review disclosed opportunities to strengthen processes for: identifying new propane and natural gas vendors to initiate tax collection, maintaining an accurate master vendor list, following up with vendors for late or non-payment, and taking actions to initiate interest and penalties when appropriate. Key management reports in place to monitor these functions did not meet the needs of the department as information was incomplete, dated, and inaccurate. In addition, controls over safeguarding checks received required improvement and various written procedures for the public service tax collection process required development and update.

Revenue Collections Process (Report issued August 12, 2010)

The Revenue Department generally processed revenues received on behalf of the County in an accurate and timely manner. Instances were noted, however, in which revenues were not timely received, follow-up was not monitored or documented, and required reports were not received from vendors to substantiate the accuracy of revenues. The department could increase its value to the Clerk and the County by taking a more proactive role in assessing and reporting untimely submissions of revenue due on set schedules.

In addition, security measures over the safekeeping and processing of checks and cash received via mail required strengthening. Opportunities existed to improve safe access controls and performance monitoring tools as well as update some procedures.

Heritage Propane Public Service Tax Collection (Report issued August 27, 2010)

An investigative audit requested by County management of Heritage Propane (Heritage) disclosed that the company had not complied with Palm Beach County Ordinance 89-13. The ordinance levies a public service tax on sales of metered and bottled gas in unincorporated areas of the County. Heritage did not collect required public service taxes from customers and in some cases remitted tax collections to municipalities instead of the County. Tax codes were incorrectly established and assigned to customer accounts by Heritage, precluding accurate assessment and collection of public service taxes for propane sales within unincorporated Palm Beach County.

Based on actual sales data from October through December of 2009, Heritage underpaid the County \$56,159 during this three-month period. Extrapolating these actual underpayments to full calendar year 2009, the projected public service taxes owed to the County total \$224,636. Additional taxes owed totaling \$6,317 were identified related to other errors.

Given that Florida Statute allows an assessment of taxes levied within three years after the date the tax was due, a similar tax liability of \$224,636 is anticipated for each calendar year 2007 and 2008 to the County. Thus, total underpaid taxes were estimated at approximately \$680,225 for the three-year period.

In addition, the County had never received public service tax payments from Metro Lift, a wholly owned subsidiary of Heritage. Tax recoveries could not be estimated.