

DIVISION OF INSPECTOR GENERAL



SHARON R. BOCK
Clerk & Comptroller
Palm Beach County

Audit Services & Public Integrity Units

2011
ANNUAL
REPORT

March 16, 2012



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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 2010-2011 Annual Report. This report summarizes the objectives and accomplishments of the Division of Inspector General for the Fiscal Year ended September 30, 2011.

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, CIG, CIA
Inspector General & Audit Director
Clerk & Comptroller Office
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INTRODUCTION

Summary of Performance

The mission of the Division of Inspector General of the Clerk & Comptroller's office is to provide independent, objective auditing and investigative services designed to add value to the County, improve the Clerk & Comptroller 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, 2011 was a period of continued productivity for the Clerk's Division of Inspector General. The Division issued a total of 13 reports and memos, detailed below, which included audits, investigations, inspections and guardianship reviews. These reports and memos provided 32 opportunities for improvement, containing 39 recommendations.

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

These reports and memos identified **\$843,607** in potential lost revenues, recoveries, cost avoidance, questionable expenditures or other economic impact to the Clerk's office, County departments and to citizens. Departmental management proactively committed to the implementation of our recommendations.

The Clerk's Audit Services Unit (ASU) issued three audit reports and memos. The Clerk's Public Integrity Unit (PIU) received information from a variety of sources, which resulted in conducting seven investigations, inspections and reviews as well as referring ten cases to federal, state, county and other agencies. Also, we initiated a new program to investigate claims of fraud, waste and financial mismanagement by court-appointed guardians for the County's most vulnerable residents: the elderly, minor children and incapacitated individuals. Our Guardianship Section issued three reports and memos, which resulted in the removal of one guardian and identification of \$184,724 in unsubstantiated and questionable expenditures.

In February 2011, our office was awarded the coveted status as an Accredited Office of Inspector General by the Commission for Florida Law Enforcement Accreditation. This accreditation underscores our team's level of professionalism, integrity and significant impact on the taxpayers' bottom line by providing another layer of protection for the public – ensuring tax dollars and county revenues are protected.

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 2009, the office expanded its roles and responsibilities. The Clerk & Comptroller's Audit Charter was revised to add a Public Integrity Unit (PIU). The PIU and Audit Services then joined to form the Division of Inspector General (IG). The PIU conducts investigations into Clerk & Comptroller affairs and for that purpose makes inquiries as necessary, compels the production of books and papers, and implements appropriate investigative techniques.

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 or authority over any area subject to its audit, review and investigation. Therefore, the Division is organizationally independent from those areas within the Clerk & Comptroller's office. Employees in the Division report to the Inspector General & Audit Director.

Staffing, Organization and Training

The Clerk's Division of Inspector General is comprised of five staff including:

- Roger Trca CPA, CIG, CIA, MBA - Inspector General & Audit Director
- Alan Bray CPA, CIGA, CIGI, CFE, CFSA - Deputy Inspector General & Audit Manager
- Charles Mansen CIGA, CIA - Audit Project Administrator
- Michael Bodle CIGA, CIGI, CFE, CIA, MBA - Senior Internal Auditor
- Anthony Palmieri CIA, CCSA, JD – 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 Clerk's Division of Inspector General hold the following professional certifications:

- Certified Inspector General (1);
- Certified Inspector General Auditor (3);
- Certified Inspector General Investigator (2);
- Certified Public Accountant (2);
- Certified Fraud Examiner (2);
- Certified Internal Auditor (4); and,
- Certified Financial Services Auditor (1).

Professional Development & Training

The Clerk's 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 3.4% of its time in FY 2010-2011 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 Clerk's Division of Inspector General are affiliated with the following professional organizations:

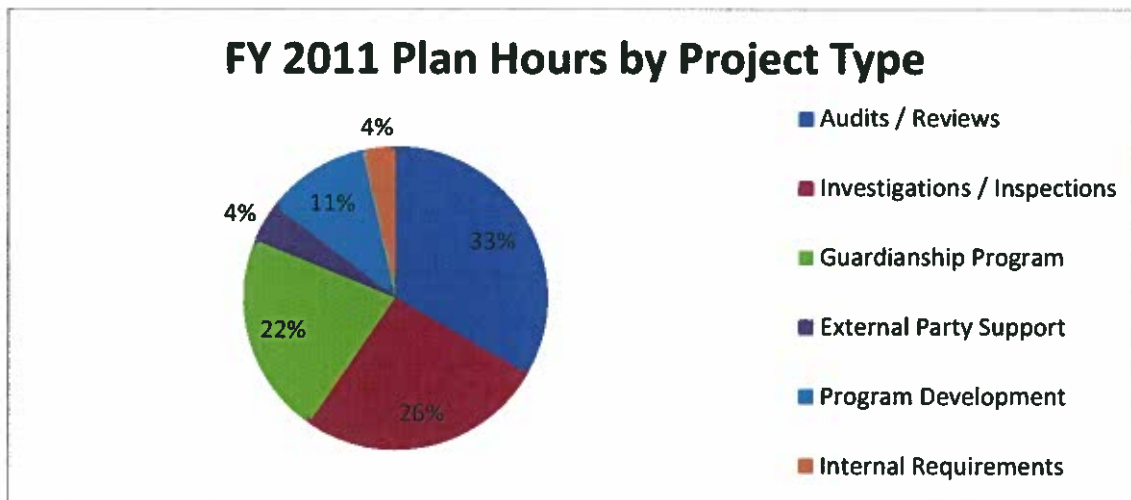
- The Association of Inspectors General;
- Florida Chapter of The Association of Inspectors General;
- The Institute of Internal Auditors, Inc.;
- The Association of Certified Fraud Examiners;
- Association of Local Government Auditors;
- American Institute of Certified Public Accountants;
- Florida Government Finance Officers Association;
- Florida State and Palm Beach Guardianship Associations; 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 2010-2011 using the available hours for the IG staff. As seen in the graph, audits, reviews, investigations, inspections and the guardianship program collectively accounted for the largest portion (81%) of time utilization.



Division's Continuous Improvement

During FY 2010-2011, the Division undertook initiatives to improve our operations. In February 2011, our office became the second Clerk's office in the state of Florida to be awarded status as an Accredited Office of Inspector General by the Commission for Florida Law Enforcement Accreditation (CFA). This initiative has encompassed an update to the Division's investigative and audit manual to reflect the process and the professional standards. CFA 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. Having an accredited IG team within the Clerk's office provides another layer of protection for the public – ensuring taxpayer dollars and revenues are protected.



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

In addition, the PIU initiated a new program to provide additional oversight of court-appointed guardians. We joined forces with the existing Clerk of Circuit Court guardianship auditors to begin conducting higher level and more comprehensive audits of the more than 2,600 guardianship cases. These new audits are designed to better identify fraud, waste and financial mismanagement by guardians for the County's most vulnerable residents: the elderly, minor children and incapacitated individuals. This comes at a critical time as it is estimated that as Palm Beach County's senior population continues to grow, new guardianship cases will increase substantially in the coming years.

PERFORMANCE RESULTS

Productivity

The Division issued reports for four audits & reviews and ten investigations, inspections, and guardianship audits conducted during the fiscal year ending September 30, 2011.

For more detailed information, please refer to the applicable highlights starting on page 16 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 2010-2011, the Division issued three audit reports and memos with:

- 11 Opportunities For Improvement containing,
 - 6 recommendations, which identified \$637,283 in potential cost savings and revenue recoveries and enhancements (one additional report was in final draft with 8 opportunities for improvement and 23 recommendations).

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 2010-2011. 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
PRIDE Integrated Services Inc. Remittances of Court Fines, Fees & Costs	Completed	10/26/10
Showcase Reports Pre-implementation Special Review	Completed	1/6/11
Heritage Propane Public Service Tax Collection Special Review	Completed	2/24/11
Human Resources Operations & Regulatory Compliance Audits	Draft Report Issued	
South County Branch Audit	In Progress	
Payroll	Rescheduled	
Cash Management	Rescheduled	
Court Evidence	Rescheduled	
Budget & Financial Analysis	Risk Reassessed	

Investigations & Inspections

The objective of these projects is to determine whether allegations of fraud, waste, abuse and ethical misconduct can be substantiated. 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 further 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 because sufficient evidence does not exist 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 2010-2011, the Clerk's Division of Inspector General handled 29 tips involving allegations from a variety of sources. The sources included various County departments and agencies, citizens, Clerk management and employees, and news articles. These tips resulted in conducting seven investigations, inspections and reviews as well as the referral of ten cases to other departments and law enforcement agencies. Of the seven investigations, inspections and reviews, the allegations were:

- substantiated in five cases, and
- not substantiated in two cases.

Memos were issued in seven cases, with 22 recommendations provided to management, which identified \$21,600 in potential cost savings and revenue recoveries and enhancements.

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.
- Walk-In: Government Center, 9th Floor, 301 N. Olive Avenue, West Palm Beach, Florida 33401.

During FY 2010-2011, the Division handled two anonymous Ethics Hotline tips. One tip was referred to a law enforcement agency and an investigation was completed for the second tip.

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.

Guardianships

We initiated a new program within our PIU to investigate allegations or indications of fraud, waste and financial mismanagement by court-appointed guardians for the County's most vulnerable residents: elderly, minor children and incapacitated individuals. This program supplements the Clerk of the Circuit Court Guardianship Section in supporting the Court's oversight process applicable to the protection of wards' assets according to Chapter 744 of the Florida Statutes and the related Administrative Order of the Fifteenth Judicial Circuit (No.: 6306-12/10). The Public

Integrity Unit of the Clerk's Division of Inspector General conducts varying levels* of audits and financial investigations of Guardianship activities.

A Guardianship Fraud Hotline was established in September 2011 to enable anyone suspecting fraud, waste or financial mismanagement of a ward's property and assets to report such concerns, anonymously if desired. Reports may be made in several convenient ways.

- Online: Create a report at www.mypalmbeachclerk.com/fraud. Click on "File a report now" in the middle of the page.
- Phone: Dial 1-561-355-FRAUD.
- Email: Send email to "fraud@mypalmbeachclerk.com"
- Mail: 301 N. Olive Avenue, 9th Floor, West Palm Beach, Florida 33401.
- Walk-In: Government Center, 9th Floor, 301 N. Olive Avenue, West Palm Beach, Florida 33401.

As of September 30, 2011, the Guardianship Fraud Hotline had been in place for less than one month. During that time, we received 16 reports, of which five required further review and investigation.

During FY 2010-2011, the PIU Guardianship Section initiated 20 audits and assessments and provided research assistance requested by the judiciary in three instances. The PIU issued three reports and memos, which provided 11 recommendations.

These audit reports are not available to the public per Florida Statute and Administrative Order of the Fifteenth Judicial Circuit (No.: 6306-12/10). The reports are issued to the Courts for review and possible action.

The guardianship work performed during Fiscal Year 2010-2011 resulted in one guardian being removed and referred to the Florida Bar Association as well as unsubstantiated and questionable expenditures identified totaling \$184,724.

Level 1

- A Level 1 audit consists of a basic review by the Clerk's Guardianship auditors to ensure guardianship reports are prepared timely, completely and accurately. If significant discrepancies are identified, the Clerk's IG staff review the documents and determine if more detailed review is warranted.

Level 2

- A Level 2 audit consists of the examination of the guardianship report and the attempted verification of selected questionable items. Limited inquiries and/or requests for supporting documentation may be necessary to resolve issues.

Level 3

- A Level 3 audit consists of a comprehensive examination and attempted verification of all significant items pertinent to the guardianship report.

Recoveries and Cost Avoidance

During FY 2010-2011, the audits, reviews, investigations, and guardianship reviews identified \$843,607 (as shown below) in potential revenue 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 CLERK IMPACT	POTENTIAL COUNTY CITIZEN IMPACT	DESCRIPTION
Heritage Propane Public Service Tax Investigative Audit	2/24/11		\$613,787	Tax underpayments and related interest; see page 17
Metro Lift Public Service Tax			\$23,496	Tax underpayments and related interest identified in Heritage audit; see page 17
Discover Palm Beach County Grant & Contract Investigation	7/18/11		\$20,000	Grant and contract payments
Improper Cash Handling by Former Employee	9/28/11	\$1,600		Unaccounted for cash
Guardianships	Various		\$184,724	Unsubstantiated and questionable expenditures
	TOTAL	\$1,600	\$842,007	

The Clerk's 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 Clerk's Division of Inspector General during the fiscal year ending September 30, 2011. If you would like to read the reports, please visit the Division's website at www.mypalmbeachclerk.com; click on "Inspector General & Audit".

Pride Integrated Services Inc. Remittances of Court Fines, Fees & Costs (Memo issued October 26, 2010)

The Palm Beach County Criminal Justice Commission (CJC) conducted a review of PRIDE Integrated Services Inc. (hereafter referred to as PRIDE). PRIDE provides probation supervision services under contract with the County. The CJC review disclosed that PRIDE had commingled restitution funds, collected from its probation clients, with PRIDE's operating funds. PRIDE also collects court fines, fees, and costs from its clients and remits these funds to the Clerk & Comptroller's Office. As a result, the CJC requested that the Clerk's office review a sample of court cases in which PRIDE had collected and remitted funds to the Clerk's office to ascertain if any discrepancies existed.

Our review of 215 PRIDE payments identified three instances in which payments could not be verified as received by the Clerk's office. PRIDE records reported three \$50 payments to the Clerk's office for cost of prosecution fees from March to June of 2009, though no corresponding entry was identified in Banner Court system records maintained by the Clerk's office.

We also noted differences between the PRIDE contract, PRIDE's published procedures, and actual practice in the handling of court fines, fees and costs. For example, PRIDE's

procedures state that court costs and fines are collected only in the form of money orders made payable to the Clerk's office. Our review found that PRIDE accepts cash, checks and money orders from clients. Two of the three \$50 payments that could not be verified were reflected as cash payments on PRIDE's records.

Heritage Propane Public Service Tax Collection (Memo issued February 24, 2011)

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. The result of our prior review of underpayments for calendar year 2009 was issued on August 27, 2010, in which estimated taxes owed by Heritage totaled \$230,953. Heritage submitted the full payment on February 4, 2011.

Given that Florida Statute allows an assessment of taxes levied within three years after the date the tax was due, County management requested that we estimate taxes owed by Heritage for calendar years 2007 and 2008 as well as the first six months of 2010. We applied the error rates that existed in the prior audit to the actual public service taxes reported by Heritage for these additional periods. The estimated public service taxes owed to the County totaled \$967,305, though the net amount of taxes and interest owed over and above the amounts previously reported totaled \$613,787.

In addition, the County had never received public service tax payments from Metro Lift, a wholly owned subsidiary of Heritage. Information shared resulted in the County Attorney's Office releasing a memo requesting payment of back taxes. As a result, the vendor paid the County \$23,496 for past taxes and interest.