



**COUNTY of LUZERNE**

P E N N S Y L V A N I A  
ESTABLISHED 1786

**OFFICE OF THE CONTROLLER**

***Children and Youth Services Audit***  
***For the period of:***  
***January 1, 2016 through June 30, 2017***

**Michelle A. Bednar**  
**Luzerne County Controller**

**Fieldwork Performed by:**  
**Mark F. Majikes**

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## **Background**

Luzerne County Children and Youth Services (C&Y) is committed to meeting the changing and diverse needs of families and the community. They strive to preserve families and to ensure children are protected, living free from abuse and neglect, and given the opportunity to grow and develop to their fullest potential.

C&Y accomplishes these goals in many different ways, from adoption services to independent living programs. In providing these services, C&Y employees are frequently in a position where they must purchase essential items, like clothing and food, for children. In other instances, employees might take youths on day trips, like to Knoebels or Dorney Park, in an attempt to allow the children to enjoy normal life experiences. Other examples might be renting a tuxedo or buying a dress for a prom or purchasing a class ring or class photos upon graduating.

In Pennsylvania, child welfare services are administered at the County level and supervised at the state level. Pa Code §3130.12 details the responsibilities of the County, stating its responsibility for the availability and achievement of children and youth services. Pa Code §3140.22 details the reimbursable services and reimbursement rates for various services. This shows that the state will generally pay between 80% - 100% of the costs. Pa Code §3170.31 details the liability of the County to pay any costs that are not reimbursed by the state or another program.

## **Objective and Scope**

The objective of this review was to ensure that expenses were reasonable and were substantiated with receipts and that adequate internal controls existed for the period January 1, 2016 through June 31, 2017.

In order to accomplish the objective, the Controller's Office obtained:

- List of vendors from New World accounting system
- All relevant invoices from New World accounting system
- Vendor files from C&Y, which included:
  - Checks paid to vendor
  - Approval memo (if approval was obtained)
  - Detailed receipts to back up purchased items

C&Y receives the majority of its funding from the state, with the County providing for those mandated services that are not otherwise funded. The scope of this audit did not investigate any state funds, but the internal processes and controls used by management and employees to spend state funds was reviewed.

The Luzerne County Controller's Office is authorized by the Home Rule Charter of Luzerne County (Charter) Section 3.08 to conduct fiscal, performance, management, contract, grant, compliance, and related audits of any County division, bureau, office, agency, board, commission, elective office, The Judiciary, Office of Court Administration,

or other administrative office. This review is an internal function, authorized by the Charter. Therefore, the Controller is required to transmit this review to the Manager of Luzerne County and County Council and post it for public inspection in the Controller's Office and on the County website and/or other electronic medium for a period of at least 60 days after it is issued. The Controller will also follow up on any recommendations, to the extent practical, in order to determine if they have been considered and/or implemented.

Auditors assigned to the engagement are employed by Luzerne County under the Controller's Office and report directly to the elected Controller. The audit staff is considered organizationally independent to conduct and report on the audit.

### **Methodology**

This audit included examining a sampling of C&Y payments to vendors. Vendors included both reimbursed employees and traditional vendors. The sample used included ten vendors, five of which were employees and five of which were traditional vendors. We examined 183 invoices, which constituted 100% of all invoices for the sample.

First, we matched the invoice amounts with the amounts in New World to ensure there were no discrepancies between the two. Then, we analyzed all supporting documentation attached to each invoice, which included receipts, permission-seeking memos, and other miscellaneous documents.

Our focus here was to ensure policies were being followed. Namely, we checked whether permission was received before employee purchases were made and whether employees were adequately submitting receipts in order to be reimbursed. Both of these internal controls exist in order to prevent waste and fraud.

### **Condition 1—Need for Improved Internal Controls**

Specific situations require C&Y to give employees money prior to the purchase. For instance, a day trip to Dorney Park with a group of youths would be an example of that. In these situations, the employee is advanced the money, instead of the normal process of being reimbursed after the fact. When this happens, C&Y writes a check payable to the employee for an estimated amount. The estimate is based on amounts spent for prior, similar trips.

If an employee does not use all the funds given to him/her, the employee puts the excess cash, along with all receipts from the trip, in an envelope and gives it to the fiscal officer. At some point in the future, the fiscal officer returns the monies to the correct account. However, there is no procedure dictating a time frame in which this money return is to occur.

## **Effect**

This lack of internal controls for these situations creates a high fraud risk. Having the employee return cash with no documentation stating how much is being returned generates no paper trail. This creates an opportunity for the fiscal officer to take or temporarily use the money without anyone realizing it. With no policy in effect to dictate the unused funds be returned to the correct account within a specific time frame, it would be possible for the fiscal officer to take the money, spend it, and return it at a later time without anyone knowing. In fact, if these excess-money-return situations occur routinely, the fiscal officer could keep the returned money from the first employee, replace those funds with money from the second employee, and so on, similar to a Ponzi scheme. We found no evidence of this type of fraud, but wanted to highlight the vulnerability.

## **Cause**

The Controller's Office believes this vulnerability exists because of a lack of internal controls for these specific situations.

## **Condition 2—Need for Improved Reimbursement Policies**

In multiple instances, employees purchased items for children prior to receiving approval for the items. Then, after the fact, the employee requested reimbursement for the purchases.

## **Effect**

This practice could lead to unnecessary overspending.

## **Cause**

The Controller's Office believes the cause is two-part.

First, C&Y employees often find themselves faced with situations that are dire to children. These situations can occur at all hours of the day or night, the children might be removed from the house with no clothing or supplies, and the priority is getting the children to safety, with some sense of normalcy. In these instances, it is not feasible to seek permission or deal with red tape to secure the basics for in-need children.

Second, because of procedures used during dire situations, as described above, it seems there has been a relaxed stance with regard to employees seeking or needing to obtain approval prior to purchasing non-urgent items. To further exacerbate this issue, we found no policies or procedures in place to prevent abuse, fraud, or waste from occurring in this area.

### **Condition 3—Gift Card Purchases**

Employees are purchasing a large number of gift cards with their own money, then waiting to be reimbursed. Most of the money used for reimbursement comes from state funds, which seems to add to the delay in reimbursement.

#### **Effect**

Some employees are spending thousands of dollars of their own money and waiting inordinate amounts of time to be reimbursed. In one instance, an employee had to wait approximately four months to be reimbursed \$1,500. This process places too much of a burden on employees.

#### **Cause**

C&Y lacks good policies and procedures for purchasing gift cards.

### **Condition 4—Inappropriate Purchase (A)**

A C&Y employee purchased copies of keys to C&Y's offices. This employee was not part of the security team nor was this employee authorized to make such purchase. Also, the locksmith employed was not the one used by the County.

#### **Effect**

Fortunately, these keys were for interior offices, not the outside building entrance. However, this action still circumvents basic security measures.

#### **Cause**

The Controller's Office believes the cause is two-part. First, while the keys would have had imprinted upon them something to the effect "Duplication Prohibited", we have learned that this is merely a suggestion to locksmiths. Second, while most employees could not conceive of taking it upon themselves to have extra keys made without proper approval, apparently the lack of a known, written policy banning such practices made way for this behavior.

Our research found there is an unwritten procedure, whereby a purchase requisition is submitted to Purchasing and a specific locksmith, who has a list of authorized requesters, is used. If someone not on the list of authorized requesters attempts to have a key made, the locksmith calls the head of Purchasing for approval. This process can be expedited in cases of emergency.

### **Condition 5—Inappropriate Purchase (B)**

Employees were allowed to purchase materials/office supplies independently and then be reimbursed for them. Two examples include paint and information technology supplies.

#### **Effect**

By bypassing the Purchasing Department, C&Y is bypassing a safeguard against waste and fraud. Additionally, this purchase-then-be-reimbursed methodology completely eliminates any need for approval or scrutiny.

#### **Cause**

The Controller's Office believes the cause was due to a lack of policy prohibiting or clarifying this practice.

### **Condition 6—Improper Shipping Methods**

Twice in the timeframe of this audit, an employee was permitted to purchase phone cases for department cell phones from Amazon and ship them directly to her house.

#### **Effect**

C&Y does not positively know if the proper number of cases were shipped or if they were properly distributed to those employees in need of them. Additionally, when buying in bulk, it's typical for a sizable organization to receive a discount. Purchasing in this fashion negates any benefits that might have been received by purchasing through the Purchasing Department. It is unknown if C&Y communicated with the Purchasing Department prior to this purchase.

#### **Cause**

Again, the Controller's Office believes this occurred due to a lack of policy/procedure.

### **Condition 7—Inconsistent Selection of Internal Accounts**

There were multiple instances where purchases for identical or similar items were paid from different internal accounts. Internal accounts are commonly recognized as the names of the various line items on the yearly budget.

A common example of this was payment of stipends. In one case, the funds might have been paid from the Stipend SIL/GGP account and another the funds were paid from the Other Treatment Support account.

## **Effect**

Inconsistent selection of accounts defeats the purpose of listing specific line items on the budget.

## **Cause**

The Controller's Office believes this occurred because there is no established standard regarding which items should be paid from which account.

## **Observations**

1. All invoices did have receipts attached to them.
2. C&Y has a petty cash account for small items. Petty cash is always a high risk area for fraud. However, C&Y's internal controls for petty cash are layered and seem to be effective. The employee has to have written permission to use it, an employee in the fiscal department reconciles the petty cash account, and the fiscal officer then signs off on it. This layered approach is effective and efficient.
3. In a prior audit, we recommended C&Y use more descriptive comments/descriptions in New World. C&Y has done this; all invoices within the audit scope had detailed descriptions in New World.
4. While reviewing one of the vendors, we noticed multiple late fees, totaling \$56.25, for untimely payments. It was determined this was due to a miscommunication on two separate occasions.

The first instance occurred in 2016 when there was a miscommunication between the employee paying the bill and the fiscal officer. In this case, the employee did not receive the bill from the fiscal officer early enough to pay it in a timely manner. It's important to note that was the first time C&Y dealt with this vendor and this miscommunication did not happen again. The late fee was \$23.81.

The second miscommunication happened in 2017, over a three-month span. A C&Y fiscal employee was mailing the payments to a local store, when the payments should have been mailed to the company's headquarters in Atlanta, Georgia. Unbeknownst to the employee, the local store was forwarding the payments to the headquarters, but the delay caused late fees to occur. The total late fees for the three months were \$32.44. Once the C&Y employee realized what was happening, the payments were mailed directly to headquarters, thus eliminating the problem.



## Recommendations

1. The Controller's Office recommends having a more formal procedure of returning excess money, as described in Condition 1. By using a form, which must be signed by both the fiscal officer receiving funds and the employee returning funds, accountability would be established. The employee could return the money by writing a personal check (which would establish an additional paper trail) or returning cash. The employee would receive a copy of the form and the fiscal officer would attach a copy of the form to a copy of the initial check paid to the employee for the estimated amount.
2. The Controller's Office recommends the employee returning from a trip, return the unused funds within three working days to the fiscal officer. Also, we recommend the fiscal officer deposit the funds to the proper account within three working days. Therefore, within six days the excess funds should be re-deposited to the proper account. This process should be monitored by a member of management, who had no part in the transaction.
3. The Controller's Office recommends establishing better controls over purchases. A few ideas are:
  - a. Create a list of approved items and a reasonable cost range for each item; if anything needs to be purchased that veers from the list, the employee must get pre-approval from the department head and/or the fiscal officer or risk not being reimbursed for the purchase. If the need occurs at a time other than normal work hours, the employee may receive approval by text message to make the purchase.
  - b. Create and communicate to all C&Y employees a list showing the most economical items in the area for the top 30 or 50 items for children, like diapers, formula, pajamas, etc., to lessen the purchaser's burden and better control costs.
  - c. If a number of purchases occur with great frequency, consider buying items in bulk (like diapers). Then, employees could pull from that monitored inventory. A better option might be to establish accounts with Walmart, Target, and a few other vendors and then obtain store credit cards, which often offer discounts or rewards. For instance, 10 caseworkers can be authorized to purchase needed goods from Walmart and each of the 10 are given a credit card with purchasing authority. The caseworker buys what is needed and submits original receipts promptly. Then, the fiscal officer reviews the receipts, reconciles the credit card account, and sees that the payment is made.
  - d. If gift cards are a frequent need, consider keeping a supply on hand for the top 5 or 10 stores (e.g., Walmart, Target, Kmart, Old Navy, Dollar General, etc.). We believe C&Y should even be able to work a deal to get a discount on them for bulk/government purchases. A log should be kept detailing each time a caseworker takes a gift card, including the card type,

amount, reason, date, and caseworker's signature. Have all gift card inventory checked weekly, by a team of 2. Rotate those team members from week to week.

- e. A general credit card should also be obtained for use by C&Y. Policies should be created to govern its use to combat fraud and waste. This should be made a high priority, since presently there is a great burden on employees to make many, varied purchases, which are sometimes quite costly items. Expecting or demanding this of employees is not acceptable and it creates an environment subject to lax controls.
4. The Controller's Office recommends C&Y create and communicate a policy dictating that employees do not self-initiate the purchase of copies of keys and, instead, take the proper measures of going through the Purchasing Department.
  5. The Controller's Office recommends C&Y create and communicate a policy regarding the purchase and reimbursement of their own supplies. The County has specific vendors that are contracted to provide all departments with the supplies needed. If an employee needs something outside of that list, they must obtain department approval to obtain it by another means, purchase it themselves at their own cost, or do without the item.
  6. The Controller's Office recommends C&Y establish a procedure whereby no employee has C&Y deliveries sent to his/her house, with few or no exceptions. In the unlikely scenario that it is advantageous to C&Y to have a delivery sent directly to an employee's home, it is imperative that certain steps be taken:
    - a. The box(es) should be brought unopened to a C&Y office to be opened, with at least one person present other than the receiving employee, preferably the employee's manager or supervisor.
    - b. A printed, detailed invoice must then be matched to all delivered items, to ensure the quantities and items purchased are identical to those received.
    - c. The items must be distributed to all recipients, with each recipient signing in acknowledgment that the item was received.

Twice within the timeframe of this audit, an employee had cell phone cases (for department cell phones) shipped directly to her home. A total of 114 cell phone cases and one pack of screen protectors were purchased and delivered in this way. Because proper procedures were not established and followed, there is no way to definitively know if the correct quantities were received or distributed to other employees.

7. The Controller's Office recommends C&Y define each budget account line item and create a process to properly and consistently record transactions. By doing this, each transaction will be uniform and easy to follow. Also, since this will create a more accurate depiction of what was actually spent in each category, this will add to the accuracy of future budgets, which are generally based upon prior-year spending.

Please Note:

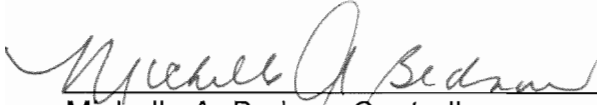
Luzerne County Home Rule Charter: Section 3.08 (C) 3

*The audited entity shall respond in writing, specifying agreement with the audit findings and/or recommendations or the reasons for disagreement with the findings and/or recommendations, along with any plans and timetable for implementing remedies. The response shall be provided to the Controller within 14 days after the audited entity's receipt of the draft audit. The Controller shall include the audited entity's response in his/her final audit report.*

Please respond to this audit as prescribed, by 5:00 pm, November 14, 2017.

**Signature Page**  
**Children and Youth Services Audit**  
**For the Period January 01, 2016 through June 30, 2017**

**Controller's Office:**

  
Michelle A. Bednar, Controller 11/14/17  
Date


  
Mark F. Majikes, Internal Auditor 11/14/2017  
Date

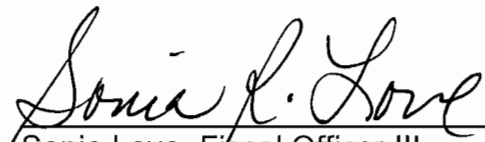
**County Manager's Office:**

  
C. David Pedri, County Manager 11/16/17  
Date

**Children and Youth:**

  
Lynn Hill, Director of Human Services 11/15/17  
Date

  
Joanne Van Saun, Director of Children and Youth 11/15/17  
Date

  
Sonia Love, Fiscal Officer III 11/15/17  
Date

The Audit of  
Department of Human Services- Children and Youth  
January 01, 2016 through June 30, 2017

This report was initially distributed to the following:

Mr. David Pedri	Luzerne County Manager
Ms. Linda McClosky Houck	County Council Chair
Lynn Hill	Director of Human Services
Joanne Van Saun	Director of Children and Youth
Sonia Love	Fiscal Officer III, Children and Youth

This report is a matter of public record and is available online at <http://www.luzernecounty.org>, found under Audit Reports on the Luzerne County Controller's section of the website. A hardcopy is also available at the Luzerne County Controller's Office. Media questions about the report may be directed to the Luzerne County Controller's Office at 20 North Pennsylvania Blvd., Suite 213, Wilkes Barre, PA 18701 or via email to [Controllers.Office@luzernecounty.org](mailto:Controllers.Office@luzernecounty.org).



**COUNTY of LUZERNE**  
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November 14, 2017

Please find Luzerne County Children and Youth's responses to the Controller's audit report.

**Condition 1 – Need for Improved Internal Controls**

During the audit, the auditor recommended that the fiscal department accept checks from employees who were returning advances and have requested checks for the two instances that have occurred since then. The caseworkers returned the funds on the first working day after their event. One worker stated that she does not use checks therefore; the fiscal officer accepted a money order instead. In realizing that some employees only use digital banking, we will also create a form to account for cash that is returned and deposited back into the agency's checking account.

**Condition 2 – Need for Improved Reimbursement Policies**

The fiscal officer requests approval by supervisors or managers for all purchases that are made for clients. It is not feasible to obtain prior approval after working hours, however, the fiscal technician does keep a log of extraordinary client expenses such as birth certificates, rent, furniture, etc., to curb repetitive spending.

**Condition 3 – Gift Card Purchases**

Gift card purchases are requested in advance in order to expend the agency's Caseworker Visitation Grant; a check is made out to the Administrative Officer, who makes the purchases and distributes the cards on an as needed basis. There was one incident during the year where four carts full of items was supposed to be charged to the Walmart credit card. The card was not accepted at the register and rather than leave over \$1,000 worth of Visitation Grant items as the cashier suggested, the Administrative Officer got permission from the Fiscal Officer to use her personal credit card. She felt that if she left the four carts unattended then any shopper could come grab items out of the carts while she was gone and the cashier was not going to re-ring each item again. The Administrative Officer was reimbursed within 1-2 weeks of that purchase.

**Condition 4 – Inappropriate Purchase**

A policy will be issued to state that all keys must be ordered through the County Security Office.

**Condition 5 – Inappropriate Purchases**

The purchase of paint was made at the time that the store was offering rebates. The Administrative Officer was in contact with Mark Zulkoski from the Purchasing Dept. in regards to this expense. Purchasing did approve the use of the employee's credit card and directed her on what to do to be reimbursed.

**Condition 6 – Improper Shipping Methods**

The agency will issue a policy that any purchases made will be paid for directly or through a reimbursement with federal, state and county funds, must be delivered to the Children and Youth office.

#### Condition 7 – Inconsistent Selection of Internal Accounts

There are times when a requisition must be processed to order supplies for the agency and the line item is over budget. In those instances, an alternate account is used while a budget transfer is requested. The fiscal department has and will continue to fund each line item more adequately.