

Community Resources and Employment

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Main points

In December 2004, officials of the Department of Community Resources and Employment (DCRE) informed our Office that they had become aware of a possible misuse of public money by an employee resulting in a loss to the Crown.

We investigated this matter to determine the amount of the loss and identify the conditions that allowed the loss of public money to occur and remain undetected.

DCRE incurred a loss of public money of about \$1 million. We concluded that DCRE needs to:

- ◆ properly segregate the duties of its employees
- ◆ provide effective direction of employees
- ◆ properly oversee operations
- ◆ use sound employee hiring practices

We make several recommendations for DCRE to help improve its processes to safeguard public money. DCRE is taking steps to improve its processes. In May 2004, it prepared a Quality Improvement Plan to improve its processes to ensure that only eligible clients receive the correct amount of assistance. As well, it is currently reviewing all established processes for social assistance payments. The purpose of the review is to strengthen processes to reduce the risk of future misuse of public money.

Introduction

The Provincial Auditor Act requires our Office to report to the Legislative Assembly losses to the Crown through the fraud, default, or mistake of any person. In December 2004, officials of the Department of Community Resources and Employment (DCRE) informed our Office that they had become aware of a possible misuse of public money by an employee. This report sets out the results of our investigation of this matter.

Background

The mandate of DCRE is to advance the economic and social well-being of Saskatchewan people. It provides basic income support, housing, childcare, career services, and employment programs. DCRE helps vulnerable families care for and support family members. It supports independent community-based services for people with mental and physical disabilities.

DCRE spent \$606 million on its programs for the year ended March 31, 2004. The following is a list of the Department's major programs and spending.

	(millions)
Income Support	\$ 313
Community Living	76
Regional Service Centres	69
Family and Youth Services	65
Other	40
Child Care	22
Accommodation and Central Services	18
Early Childhood Development	3
Total	<u>\$ 606</u>

What happened

On December 20, 2004, DCRE officials informed us that they had become aware of a possible misuse of public money by an employee. The misuse involved about \$1 million over 12 years.

DCRE acted promptly after detecting the misuse of public money in late November, 2004. Within one day of uncovering the suspicious circumstances, DCRE suspended the employee and two days later notified the RCMP. Within a week, DCRE had set up a team of senior managers to oversee an investigation into the nature and extent of the possible misuse of public money and the deficiencies in processes, if any, that could have allowed the misuse to occur and remain undetected for 12 years.

Our objectives

We set two objectives for our investigation. First, we wanted to determine the amount of the loss of public money. Second, we wanted to determine the conditions that could have allowed the loss of public money to occur and remain undetected.

Our conclusions and findings

We found:

- ◆ **DCRE incurred a loss of public money of about \$1 million. Due to the nature of misuse of money, we are unable to determine if there were further losses. Misuse of money is difficult to detect because the acts are designed to conceal the misuse. Even an audit of every transaction might not uncover all misuse of money.**
- ◆ **DCRE needs to:**
 - properly segregate the duties of its employees
 - provide effective direction of employees
 - properly oversee operations
 - use sound employee hiring practices

We have structured the chapter in two parts. In Part A, we describe our work to determine the amount of the loss of public money. In Part B, we describe the conditions that allowed the loss of public money to occur and remain undetected. We include recommendations for improvement.

Part A—Loss of public money

What we did

We assessed DCRE's plan to investigate the loss of public money. The plan's objectives were to determine:

- ◆ if there was misuse of public money by the employee, and if so, the extent of the misuse, and how it was carried out
- ◆ if any other DCRE employees may have carried out similar activities to misuse public money in the past three years
- ◆ if DCRE's processes need strengthening to prevent or detect the misuse of public money

Based on our suggestions, DCRE revised the plan to strengthen it. The revised plan is reasonable for DCRE to achieve the above objectives.

DCRE did most of the investigative work. We examined DCRE's work and findings. We did tests and other audit procedures we considered necessary to ensure that DCRE's work was adequate. Where DCRE's work was not adequate for our purposes, we asked it to do additional work. DCRE co-operated fully with our requests.

What we found

We determined that DCRE incurred a loss of public money of about \$1 million. Due to the nature of misuse of money, we are unable to determine if there was further misuse. Misuse of money is difficult to detect because the acts are designed to conceal the misuse. Even an audit of every transaction might not uncover all misuse of money if it is concealed by false documents, or involves management override.

Misuse of public money by an employee

The misuse of public money occurred in DCRE's Saskatchewan Assistance Program (SAP). SAP provides social assistance to persons in financial need. For the year ended March 31, 2004, DCRE spent \$240 million on social assistance.

DCRE told us that on November 30, 2004, an income security worker (worker) in DCRE's Saskatoon Regional Office found a problem. While reviewing a list of payments, the worker noticed a payment to an unfamiliar client. Upon reviewing the client's file, the worker found extensive involvement by the SAP Area Service Manager (Manager). The Manager was the only client contact recorded in the file. The manager had initiated and approved many payments to the client.

DCRE's policy is that managers do not register clients for benefits or initiate payments. Because any involvement in a client file by a manager is unusual, the caseworker informed senior management who investigated further. Management then found additional files where the Manager was initiating payments.

On December 1, 2004, management suspended the Manager who was later fired.

Our detailed findings

The Manager misused public money during the period August 24, 1992 to November 26, 2004, by making unsupported payments to 16 clients. We were unable to verify the existence of, or identify any of, these clients.

The manager made 917 payments to the 16 clients totalling \$1,030,000. Exhibit 1 shows the evolution of clients and total annual payments to the clients.

Exhibit 1—Misuse of public money by Manager

Year	# of clients	# of clients paid	Total payments
1992	1	1	\$ 11,863
1993	2	2	41,139
1994	3	3	73,606
1995	3	3	88,243
1996	4	4	72,845
1997	6	4	100,116
1998	12	10	72,147
1999	15	11	94,113
2000	16	10	92,954
2001	16	9	105,321
2002	16	9	89,037
2003	16	8	96,781
2004	16	10	95,078
Total	16		\$1,033,243

DCRE could not find evidence to support any of the 917 payments. A SAP client file typically contains a signed application for social assistance and other documentation confirming the client's living arrangements, personal assets, and expenses for rent, utilities, and special needs.

The Manager made virtually all payments to the 16 clients as emergency payments. DCRE's central payment system in Regina prepares all SAP cheques. DCRE mails the cheques from Regina except for emergency cheques. Emergency cheques are printed in the regional offices for pick up by clients.

Payments were often deposited into a single bank account. The bank account was in the name of the first client. To deposit other client cheques to this account, cheques were made out jointly to a landlord (the first client) and one of the other clients.

We were unable to establish the identity of any of the 16 clients. Most of the addresses recorded in the clients' files do not exist. DCRE has made no payments to any of the 16 clients since the Manager left on December 1, 2004. Payments to the clients were very regular each month (about eight cheques each month) over the 12 years, except when the Manager was away on extended leave (i.e., six weeks leave in 1998 and four

weeks in 2001). DCRE made no payments to the 16 clients during the extended leaves.

Search for similar misuse of public money by other employees

DCRE investigated whether other similar activities to misuse public money have occurred over the past three years. DCRE's investigation did not find additional misuse of public money. We examined the Department's work and agree with its findings.

Part B—Conditions that have allowed loss of public money

No system to safeguard public money can prevent or detect all fraudulent acts because the acts are designed to conceal the fraud and may involve collusion with others. A sound system to safeguard public money creates an environment where errors or fraud are less likely to occur and if they occur, are more likely to be detected. Through diligent planning and oversight, an agency's senior management reduces the risk of errors and fraud.

We recognize that the each misuse of public money by the manager was relatively small and took place over 12 years. The Department issues over 1,000,000 payments each year, totalling over \$600,000,000 for all its programs. The misuse of money involved about 80 payments each year averaging about \$90,000 per year.

Loss of public money is more likely to occur when the following conditions exist:

- ◆ segregation of duties is absent, weak, or loosely enforced
- ◆ there is ineffective direction to staff
- ◆ employees are poorly supervised
- ◆ employees are hired and retained without due consideration for their honesty or integrity

We describe below our findings for each of the above conditions.

Segregation of duties

To safeguard public resources from misuse, an agency needs to segregate duties so that no one employee or group of employees is in a position to perpetrate and conceal errors or fraud. A lack of segregation of duties increases the risk that public money will be misused and that the misuse will not be detected.

Our 2004 Report – Volume 3 reported that DCRE has not established adequate security processes for its computer systems. Security processes include defining and limiting who has access to information systems to initiate, revise, and approve payments. Strong security processes help to ensure that no one employee or group of employees is in a position to perpetrate and conceal errors or fraud.

This deficiency in security processes enabled the Manager to both initiate and approve payments. During 2005, the Department is taking steps to strengthen its security processes.

1. **We continue to recommend that the Department of Community Resources and Employment establish adequate security processes for its information systems that adequately segregate employees' duties to initiate, revise, and approve payments.**

Effective direction to employees

To safeguard public resources from misuse, an agency needs to provide effective direction to employees.

DCRE has various operating policies and procedures manuals that provide direction and guidance to employees. The manuals include directions to employees on how to initiate and process payments. DCRE has also established authority limits setting out the following: who has the authority to initiate and approve payments, the maximum amounts of the payments, and the nature of payments that can be initiated or approved.

The Saskatchewan Assistance Regulations (Regulations) define who is eligible for social assistance and the amount of assistance. The

regulations set clear limits for payments for basic needs such as food, clothing, and shelter.

In addition, the Regulations authorize DCRE to pay for additional client needs such as special clothing and food, travel, childcare, household equipment and furniture, property repairs, education expenses for children, and expenses related to starting employment. The Regulations require ministerial approval for certain special needs payments that exceed \$5,000 in a year, e.g., property repairs.

Annually, DCRE makes over 700,000 payments for social assistance. DCRE must make many of these payments quickly. A person's need for food, clothing, and shelter often require payment that day, or within a few days. DCRE must later verify the client's eligibility for assistance and the amount that was required.

In addition, a client's eligibility for assistance (e.g., living arrangements, levels of income) often changes affecting the amount of required assistance. If the client does not promptly inform DCRE of such a change, it will make incorrect payments until it re-assesses the client's need. DCRE's processes require this re-assessment on every client at least once each year.

As a result, DCRE needs strong detective controls to identify incorrect payments after they have been made and to recover any over payments. For several years, we have reported that DCRE does not adequately follow its established processes that ensure only eligible clients receive assistance and that they receive the correct amount of assistance. DCRE's inadequate compliance with processes indicates that employees are not adequately supervised or trained to understand the importance of following established processes.

Employees must understand the importance of complying with established processes to prevent errors or fraud. They need to know that they are expected to bring any observed non-compliance to management's attention, and can do so safely. Fraud awareness training for employees can assist in this process. Fraud awareness training would help DCRE establish a culture of fraud awareness. It would also help employees in detecting and preventing internal and external frauds.

In June 2001, the Standing Committee on Public Accounts (PAC) agreed with our recommendation that DCRE follow its established processes that ensure only eligible clients receive assistance and that they receive the correct amount of assistance.

- 2. We recommend that the Department of Community Resources and Employment clearly communicate to its employees the importance of its processes to safeguard public resources and ensure employees understand the intent of the processes.**
- 3. We recommend that the Department of Community Resources and Employment train its employees to help establish a culture of fraud awareness.**

Overseeing operations

To safeguard public money from misuse, agencies need to oversee operations and supervise employees to ensure they follow established processes and are achieving the agency' objectives.

As described earlier, we have for several years reported that DCRE does not adequately follow its established processes that ensure only eligible clients receive assistance and that they receive the correct amount of assistance. The deficiencies in complying with established processes indicate that management needs to strengthen its supervision of operations and employees to prevent or detect errors or fraud in social assistance payments. Exhibit 2 shows our audit findings for the past three years on the rate of non-compliance with DCRE's established processes.

Exhibit 2—Percentage of client files containing inadequate support for social assistance payments

Eligibility not adequately documented or incorrectly recorded	2005	2004	2003
Client identification	10%	18%	33%
Needs/expenses	26%	29%	25%
Marital status	1%	8%	13%
Living arrangements	10%	16%	23%
High risk of overpayments (large payments) ¹	0%	7%	19%

Exhibit 2 shows that DCRE has improved its compliance with established processes in recent years. More improvement is needed. DCRE's internal auditor regularly reports to senior management similar rates of non-compliance with established processes. Prompt action by management is necessary to improve compliance.

High risk payments need closer scrutiny

We have reported in previous years that DCRE does not have a comprehensive and consistent risk management process to decide which social assistance clients require close scrutiny. With an average caseload of about 27,000 clients, DCRE needs to focus its investigations on payments to its highest risk clients.

High risk clients include those who receive large amounts of social assistance. Large payments are generally for special needs such as property repairs, moving expenses, or medical expenses.

Over a 12 year period, the Manager paid about \$1 million to 16 clients. Payments to individual clients often exceeded \$20,000 annually. Regular reviews by management of large payments might have revealed that there was no support for these payments.

We continue to recommend that DCRE follow its established processes to ensure that only eligible clients receive assistance and that they receive the correct amount of assistance.

¹ These are client files that contained large unsupported or suspicious payments with little or no evidence that DCRE had followed up or questioned the payments. These payments include, for example, payments without invoices or receipts; medical payments without any evidence of medical problems; and payments to clients with significant bank balances or other assets.

Hiring employees

To safeguard public money from misuse, an agency needs processes designed to determine the suitability of job applicants. It also needs to bond or otherwise insure persons involved in the collection, receipt, disbursement, or expenditure of public money.

DCRE uses hiring practices established by the Public Service Commission. While those practices require departments to screen prospective employees, they do not require departments to do criminal record checks on all employees. Criminal record checks would be useful to determine the suitability of applicants for the position being filled. Currently, criminal record checks are mandatory for certain employees working in DCRE and other government agencies.

When DCRE hired the Manager in 1989 as a caseworker, it was not its practice to do criminal record checks on employees hired to fill positions of trust. Beginning in 1997, DCRE does criminal record checks for all employees who provide personal care to clients or supervise or otherwise affect the personal, financial, or social functioning of clients. Many of these employees also initiate or approve payments. DCRE does not do criminal record checks on other employees who do not deal with clients but are involved in the collection, receipt, disbursement, or expenditure of public money.

Criminal record checks are a good source of information for an employer to assess if the individual's past behaviours align well with the requirements of the job. Criminal record checks, however, do not guarantee an individual's future behaviour and honesty. To address this risk, agencies buy insurance policies (fidelity bonds) to protect them from any losses resulting from employees' behaviour or dishonesty.

To protect public money, the Legislative Assembly passed legislation for bonding of public officials. *The Public Officials Security Act* (Act) requires that:

....every public official shall... enter into a bond or other security for the due performance of the trust reposed in him and for his duly accounting for all public moneys entrusted to him or placed under his control or that may come into his hands.

Under the Act, public official means a person appointed to an office or employment by or under the Government of Saskatchewan, wherein the person is concerned in the collection, receipt, disbursement, or expenditure of public money. The Act also gave Cabinet authority to accept a bond from Saskatchewan Government Insurance (SGI) as a guarantee for the due performance of duties by members of all classes of public officials to comply with the requirements of this Act. This bond substitutes for the need for public officials to provide individual bonds.

Insurance companies offer various types of fidelity bonds to protect employers from losses resulting from employees' behaviour or dishonesty. Individual bonds and blanket bonds are fairly common. Individual bonds cover each named employee and the insurer does the due diligence about the individual before bonding and regularly after bonding. Individual bonds are relatively expensive and difficult to obtain. Blanket bonds cover specific positions in an agency. The insurance companies undertake due diligence on the agency rather than on each employee. Blanket bonds cost less but are not as effective as individual bonds unless supplemented by criminal record checks by employers.

The Act requires all public officials to provide a bond. However, Cabinet under the authority of that Act has arranged a blanket bond with SGI to substitute for individual bonds. The bond covers all departmental positions for a standard coverage of \$20,000 per position. The standard coverage has remained \$20,000 since 1978.

Also, under the current bond, departments can ask for special additional coverage for positions that handle cash or other valuables. DCRE does not have additional coverage for any specific position.

To reduce the risk of loss of public money, DCRE should assess if it needs to seek additional bond coverage for those employees who are involved in the collection, receipt, disbursement or expenditure of public money. DCRE should also assess if the blanket bond coverage of \$20,000 is sufficient. Alternatively, it should consider supplementing the blanket bond by criminal record checks for all employees who hold or will hold positions of trust.

4. We recommend that the Department of Community Resources and Employment assess if the standard blanket

fidelity bond (insurance) coverage reduces its risk of loss of public money to an acceptable level.

5. We recommend that the Department of Community Resources and Employment assess the risk of loss of public money by employees in positions of trust (i.e., responsible for the collection, receipt, disbursement or expenditure of public money) and reduce the risk to an acceptable level (e.g., increasing insurance coverage or requiring criminal record checks).

Department's plans to prevent future misuse of public money

In May 2004, DCRE prepared a long-term Quality Improvement Plan (Plan). The purpose of the Plan is to 1) improve the quality of social assistance delivery, and 2) to improve compliance with DCRE's processes for social assistance payments including strengthening the processes if necessary. The Plan sets out a vision, values, objectives, risks to achieving objectives, strategies and action plans (with deadline dates), and performance measures.

Action plans include reviews of 5,000 social assistance client files for compliance with established procedures and staff training on the purpose and importance of established processes. Action plans also include strengthening internal audit and other monitoring of performance, and regular reporting to senior management. Long-term action plans include developing a corporate culture that ensures long-term sustainability and improvement of client service and compliance with established processes.

DCRE is on time in meeting its deadlines for its strategies and action plans related to its social assistance program, except it has not yet set performance targets. It has completed reviews of 9,000 client files for compliance with established procedures and reported the results to senior management. It has completed staff training.

The Plan, combined with long-term commitment from senior management, should provide a reasonable basis for the DCRE to achieve and maintain compliance with its processes. We will continue to monitor

DCRE's implementation of the Plan and report our findings in future reports.

In addition, as noted earlier, DCRE's investigation plan includes determining if DCRE's processes are adequate to prevent or detect the misuse of public money. DCRE, with assistance from the Department of Finance, is doing a review of all processes for social assistance payments. The purpose of the review is to strengthen processes to reduce the risk of future misuse of public money. We will report on the adequacy of any new processes in a future report.