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Department of Health and Senior Services
Office of the Public Guardian for Elderly Adults

July 1, 1996 to June 30, 1998

Richard L. Fair
State Auditor

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President of the Senate

The Honorable Jack Collins
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Mr. Albert Porroni
Executive Director
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Enclosed is our report on the audit of the Department of Health and Senior Services, Office of the Public Guardian for Elderly Adults for the period July 1, 1996 to June 30, 1998.

If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair
State Auditor
October 7, 1998

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Department of Health and Senior Services
Office of the Public Guardian for Elderly Adults

Scope

We have completed an audit of the Department of Health and Senior Services, Office of the Public Guardian for Elderly Adults (office) for the period July 1, 1996 to June 30, 1998. Our audit included financial activities accounted for in the state's General Fund and the office's nonappropriated funds which are maintained in the client trust system. Annual expenditures of the office, including both client-related expenditures and office salary and computer costs, approximated $9 million. Revenues deposited in client accounts were approximately $8 million. The prime responsibility of the office is to ensure that its clients are maintained in the least restrictive manner possible, given their physical, emotional and financial needs. This responsibility includes financial management of approximately 600 active client accounts with an asset value of $5 million. Annual commissions charged to client accounts are $500,000.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the office programs, were reasonable and were recorded properly in the accounting systems. We also tested for resolution of significant conditions noted in our prior report.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the agency.

Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Populations were stratified and large dollar transactions were examined. Other transactions were judgmentally selected.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the office and walked through the system to determine if the corrective action was effective.

Conclusions

We found that the financial transactions included in our testing were related to the office's programs, were reasonable and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management's attention.

We also found that the office has resolved the significant issues noted in our prior report, except for matters related to investments and system reconciliations. These issues have been updated in our current report.

Internal Controls

Improvement of internal controls could reduce the risk of misstatement of client accounts.

The office provides legal assistance, social services planning, and financial management of approximately 600 active client accounts. Improvement of internal controls could reduce the risk of loss or misstatement of client funds maintained in five bank accounts with an approximate value of $5 million.

Reconciliations of system bank accounts have not been performed since March 31, 1994. Reconciliations of daily mail logs to daily deposits were not performed on a regular basis. Supervisory review was not evident in the deposit and reconciliation processes.

Reconciliations and supervisory reviews are important in identifying errors and assist in ensuring accurate records through timely follow-up procedures. We found clerical errors in the mail logs, transfers ($125,000 and $30,000) between bank accounts that were not posted to the computrust system and a $64,000 disbursement not posted to the system for eighteen months. We also identified a surplus of $234,000 in the General Office (money market) Account.

Recommendation

We recommend that system bank accounts and mail logs be reconciled on a timely basis to ensure accurate information. We further recommend that $234,000 in the General Office Account be transferred to an account in the state accounting system.

Auditee's Response

We certainly agree that the accounts and mail logs must be reconciled in a more timely fashion. We are making every effort to meet this recommendation.

Please be advised that the office currently transfers the funds in the General Office Account on a regular basis to the Department of Health and Senior Services in order to cover the cost of approximately one-half of its staff salaries.

Investment of Funds

Funds should be managed by the Division of Investment.

The office maintains two money market accounts, one for client funds and the other for office funds. The accounts had approximately $3 million and $1.8 million invested at May 29, 1998, earning interest of 6.5 percent and 2.0 percent, respectively. Department of the Treasury Circular Letter 96-14-OMB states that all investments of fiduciary funds which are not under the control of the State Treasurer must be made through the Division of Investment which earned an average rate of 5.5 percent in the State of New Jersey Cash Management Fund at June 30, 1998. Also, agencies are not to make investments in money market funds. The office, by not complying with the circular letter, earned less investment income for the office account and one percent higher for client accounts.

Recommendation

We recommend the Office of the Public Guardian for Elderly Adults comply with Department of the Treasury Circular Letter 96-14-OMB and transfer the money market funds to the Division of Investment.

Auditee's Response

While we do not object to the transfer of the money market funds that are used for the office to the Division of Investment, we must strenuously object to any transfer of client funds to that division. Under the enabling legislation, as well as the Executive Order of May 2, 1996, which created the Department of Health and Senior Services, the Office of the Public Guardian shall be independent of any supervision or control regarding decisions made on behalf of the Public Guardian's clients. Investment decisions are among the most fundamental decisions made for clients by the office, and the Public Guardian would be violating her fiduciary duty toward her wards if she abdicated this responsibility to another state agency.

Investment Income

Clients' investment income should be distributed to client accounts on a regular basis.

Investment earnings of $317,000 and $266,000 earned for calendar years 1996 and 1997, respectively, were not available to clients when earned because the office posts interest to client accounts in December of the current year. Periodic postings to client accounts would provide accurate balances.

Recommendation

We recommend the Office of the Public Guardian post client interest on a monthly basis.

Auditee's Response

We agree this should be done as a matter of course and are making an effort to accomplish this objective.