

FINANCE DEPARTMENT

April 28, 2023

SUMMARY

The 2022-2023 Kings County Grand Jury (Grand Jury) was made aware of three issues pertaining to the Kings County Finance Department (Finance Department).

Issue #1

The Finance Department was the victim of an internet scam.

An electronic funds transfer (EFT) change request received through the internet was processed by the Finance Department. The EFT form appeared to have been filled out correctly by the vendor (the internet scammer) however, the email used was off by one digit/letter.

Issue #2

The Grand Jury was made aware of concerns about the process of paying for purchases and travel by all of Kings County departments. Changes have since been made to the procedures of paying for purchases and travel.

Issue #3

The Grand Jury's initial 1099s were incorrect and received late per Internal Revenue Service Title 26 CFR 1.6041-6.

BACKGROUND

Issue #1

An EFT form change request was honored by the Finance Department. The Finance Department was made aware that they were a victim of a scam when the legitimate vendor asked for payment of an invoice that the department had already paid thru an EFT. The Finance Department began an internal investigation into the loss of funds and asked the Kings County Sheriff's Office to investigate. The United States Secret Service was asked to assist in the investigation by the Kings County Sheriff's Office. Before this incident, staff was allowed to make changes to EFT forms without having a

second set of eyes on the EFT form. According to the Kings County Sheriff's Office, other counties and private entities were also victims of this scammer.

Issue #2

The Finance Department should have strict processes to follow when processing payments for purchases and travel by all Kings County departments. At the time of this report there were no sufficient procedures in place to review receipts and vendors.

Issue #3

Title 26 of the IRS Code directs that 1099s are to be disbursed annually by January 31. If sent digitally, they should be received by January 31. If received by mail, they may arrive shortly after that, but companies must postmark them by January 31.

All three of these issues dealing with the Finance Department are of great concern, which prompted the Grand Jury to investigate.

METHODOLOGY

Issue #1

The Kings County Assistant Director of Finance was interviewed on September 7, 2022, and again on February 15, 2023.

Issue #2

The Kings County Sheriff's Department was interviewed on December 9, 2022, and on March 29, 2023.

Issue #3

Grand Jury members shared that their 1099's were incorrect and were received after the recommended date per the IRS code.

DISCUSSION

Issue #1

The Finance Department paid by EFT the amount of \$894,000 (in 2021) to an entity (scammer) claiming to be the legitimate vendor working on the new Juvenile Hall building.

Through an investigation it was discovered that the scammer obtained the EFT form from the Finance Department's website. General line staff received an EFT form requesting to change the payment process to direct deposit. The clerk proceeded to make the change without further review. No contact was made with the original vendor for verification of the form prior to payment based on there being no verification procedures in place.

The Kings County Sheriff's Office said that "this type of fraud is a common occurrence, and the perpetrator was experienced and had stolen from other counties. These individuals that we were able to find through this process were able to target seven different entities, three of which were other municipalities."

The Kings County Sheriff's Office stated that the United States Secret Service recovered about 90 percent of the funds, (which are being held in a trust account), but the County had to make up the remaining \$84,998. The Kings County Board of Supervisors unanimously approved to cover the amount from contingencies within the County's budget.

The Kings County Assistant Director of Finance stated that the County has implemented procedures to prevent fraud since the incident, resulting in the prevention of a handful of attacks since. Changes have since been made to the procedure that is required to change EFTs and process receipts and travel request payments.

The following was provided by the Finance Department. These steps are written as follows:

- a. The EFT forms are no longer available on the intranet, and the county departments are not allowed to issue the form. The vendors must directly email the Kings County Auditor inbox requesting the form. The Senior Accountant-Auditor reviews each request. Prior to sending the form, the Senior Accountant-Auditor looks up the business in Finance Enterprise to ensure they are an existing vendor. The business is then searched on the internet. Once the business website is located the contact information listed on the website is compared to the information in the email. Items compared are the physical address, phone numbers, and email address. If all the information is verified, a form is emailed to the requestor. The Senior Accountant-Auditor then logs that a form was sent to the vendor, the date, and the name of the person who sent the requesting email. If any forms are submitted and the business is not listed on the issued Forms log, the form will not be processed.*

- b. *When completed forms are received, the Accounting Assistant will log the vendors information on a tracking sheet. The tracking sheet is called the EFT Verification log. It tracks the vendor number, business name, business contact, contact's title, date vendor signed EFT form, phone number, contact email, and the ACH (Automated Clearing House) email. In addition, the Accounting Assistant also calls the business and speaks to the business contact and has the contact verify all the information submitted on the EFT form. It is then recorded on the EFT Verification log what steps were taken to verify the information, who the information was verified with, and the date. If any information is unable to be verified, the form is not processed. Any forms submitted that are not fully completed are not processed. The Accounting Assistant is instructed to never read off information on the submitted form to the person on the phone.*

- c. *Once the vendor and the submitted form has been verified, it is then reviewed by the Accounting Technician. If all the submitted information and verification notes are thorough, they will enter the requested changes to the vendor's profile on Finance Enterprise. A pre-note association is added to the vendor's profile. This allows the department to check the banking information with the institution to ensure the account number and routing number are correct and valid. If the information is valid, the Senior Accountant-Auditor will remove the pre-note association. The vendor will start receiving EFT payments once the pre-note association is removed. If the banking information comes back from the bank as incorrect, the vendor is placed back on check payments by the Senior Accountant-Auditor. They will then reach out to the vendor and attempt to resolve the issue or be flagged as a possible fraudulent attempt. Anything flagged as potential fraud is reported to the Sheriff's Office by the Assistant Director of Finance.*

- d. *In addition to this process, the Senior Accountant-Auditor is in the process of issuing a formal Accounts Payable Policy for all county departments. In the policy, EFT Payment Request forms are addressed. The Finance department is also in the process of formalizing the internal process describe in the prior steps. The EFT Payment Request Form will also be updated annually as an added security measure.*

Issue #2

All Kings County Department Heads approve the expenditures of their departments. The Finance Department does not question a departments expenditure unless a complaint is filed within the original department. An investigation would then follow and may include the Kings County Sheriff's Office or Kings County District Attorney's office. The Grand Jury was told that each department of the County has an employee considered to be an auditor of their department's expenses.

The Kings County Director of Finance sent us the new Trip/Travel Policy Updates. They are written as follows:

Trip (No lodging Required)

- a. *All meals will be reimbursed at the Federal per diem rate for the location of the trip. (Actual rate is no longer allowable)*
- b. *Claims for reimbursements must be sent to the Finance Department within 45 days after the trip or expenses was incurred. (120 days is no longer considered reasonable time.*
- c. *Printouts from reliable mapping sites such as MapQuest or Google Maps can be provided as verification of mileage traveled. (Printouts are no longer required but is recommended for mileage reimbursements)*
- d. *Trips that extend over the lunch hour for H.S.A. staff whom pick up/drop off clients to different locations in the County or outside the County to comply with court ordered visits involving juveniles can be authorized, by the H.S.A Director, for reimbursement for one meal for the employee. (Meal reimbursement is allowed in County for specific circumstance and does not need to be accompanied by another County employee)*

Travel (Lodging Required)

- a. *Claims for reimbursements must be sent to the Finance Department within 45 days after the trip or expenses was incurred or 10 days if the employee received a cash advance. (120 days is no longer considered reasonable time)*
- b. *All meals will be reimbursed at the Federal per diem rate for the location of the trip. (Actual rate is no longer allowable”*
- c. *Out of State travels must have prior approval by Department Head, (no longer need BOS approval)*
- d. *Out of State travels by 3 plus employees to the same event must have prior approval by the Chief Administrative Officer. (No longer need Admin approval for all travels that contain 3 plus employees attending the same event)*
- e. *Approved Travel Request form is required if employee is receiving a cash advance or required to obtain Admin approval. (Travel requests are not required for all travel expense reimbursements)*
- f. *Printouts from reliable mapping sites such as Map Quest or Google Maps can be provided as verification of mileage traveled. (printouts are no longer required but is recommended for mileage reimbursement)*
- g. *If an employee owes any money back to the County Department of Finance will contact the employee by e-mail and by phone with the amount to be refunded. If the refund has not been made within 2 weeks or 10 business days from the last contact the Department of Finance will schedule a one-time reimbursement from the employee’s next paycheck. (Refunds to the County could be made by cash/check deposit and were only forcible by withholding Travel Advancements)*
- h. *The Director of Finance may authorize exceptions to the lodging reimbursement limits set in this policy of up to 50% when requested by the Department Head in advance of any travel related to County business. (With prior approval from the Finance Director employees could be approved up to 250% of the Federal GSA rate for a particular location)*

Issue #3

The Grand Jury received their 1099's in the middle of February. The 1099s were late and incorrect in violation of IRS Title 26 CFR 1.6041-6. The members were sent corrected 1099s in late February. This occurred after some members had already filed their taxes which caused them to have to file an amended tax return.

FINDINGS

- F1. Issue #1 Just because "this type of fraud is a common occurrence, and the perpetrator was experienced and had stolen from seven other counties, three of which were other municipalities" it should not be acceptable or occurring in the Finance Department.
- F2. Issue #2 Kings County Department Heads approve the expenditures of their departments without independent review from the Finance Department.
- F3. Issue #3 The Finance Department sent out incorrect 1099's that were received later than the January 31st postmark deadline required by IRS Title 26 CFR 1.6041-6.

RECOMMENDATIONS

- R1. Issue #1 Ongoing training and auditing of processing payments and identifying scams should be made a priority in the Finance Department.
- R2. Issue #2 The Finance Department should have an employee or system in place to review expenditures which were previously approved by all Department Heads.
- R3. Issue #3 The Finance Department should continue training on the process of issuing form 1099 in the proper time frame as stated in IRS Title 26 CFR 1.6041-6.

REQUIRED RESPONSES

Pursuant to Penal Code Sections 933 and 933.5, the Grand Jury requests responses from the following bodies within 90 days of receipt.

Kings County Board of Supervisors
Kings County Government Center
1400 W. Lacey Boulevard Bldg. #1
Hanford, Ca 93230

INVITED RESPONSES

Kings County Director of Finance
Kings County Government Center
1400 W. Lacey Boulevard
Hanford, Ca 93230

Kings County Administrative Officer
Kings County Government Center
1400 W. Lacey Boulevard Bldg. #1
Hanford, Ca 93230

SEND FINAL REPORT RESPONSES TO:

Original to:

Michael Reinhart, Presiding Judge
c/o Shane Burns, Advising Judge
Kings County Superior Court
1640 Kings Court Drive
Hanford, CA 93230

Copy to:

Kings County Grand Jury
P. O. Box 1562
Hanford, Ca 93232