

**STATE OF SOUTH DAKOTA -
DEPARTMENT OF SOCIAL SERVICES**

SPECIAL REVIEW REPORT

March 7, 2017 Through April 30, 2023

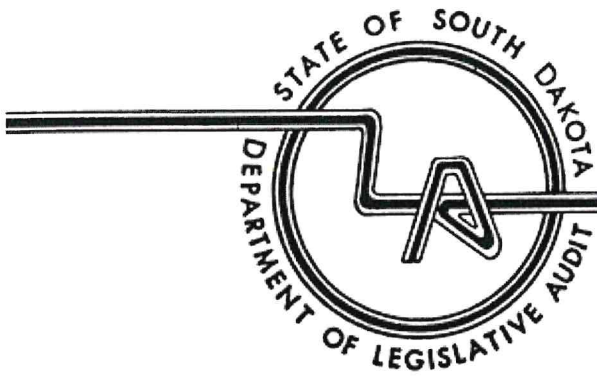


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STATE OF SOUTH DAKOTA - DEPARTMENT OF SOCIAL SERVICES
SPECIAL REVIEW

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RUSSELL A. OLSON
AUDITOR GENERAL

The Honorable Kristi Noem
Governor of South Dakota

Matt Althoff
Secretary of the Department of Social Services

and

South Dakota Legislature Executive Board and Government Operations and Audit Committee

Pursuant to a request from the Department of Social Services and the Attorney General's Office - Division of Criminal Investigation we performed procedures for the purpose of reviewing the nature of irregular transactions related to a former employee of the Department of Social Services during the period of June 1, 2010 through April 30, 2023.

Due to various records retention policies, very few records were available for the period of June 1, 2010 through March 6, 2017; and as a result, transactions made during this period were not included in the findings of this report.

These procedures did not constitute an audit made in accordance with generally accepted government auditing standards and do not extend to, and we do not express an opinion on, any financial statements or reports of the South Dakota Department of Social Services.

This report begins with an executive summary of our findings. Following the executive summary are additional sections with detailed information related to our findings and recommendation.

We wish to thank the personnel of the Department of Social Services for being very cooperative and for providing assistance as we conducted this engagement.

This report is intended solely for the use of management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,

Russell A. Olson
Auditor General

July 18, 2024

STATE OF SOUTH DAKOTA – DEPARTMENT OF SOCIAL SERVICES SPECIAL REVIEW

I. Background/Predication

The South Dakota Department of Legislative Audit (DLA) started a Special Review of the State of South Dakota's Department of Social Services (DSS). This review was started based on a meeting DLA had with the Attorney General's Office - Division of Criminal Investigation's (DCI) Director and Assistant Director on February 27, 2024. At this meeting, the DCI presented DLA with a document, prepared by DSS which summarized irregular activities that DSS employees had discovered while reviewing certain accounts after program personnel changes. The DCI Director and Assistant Director had just met with DSS and additional information regarding that meeting was communicated to DLA as well.

Additional meetings were held on February 29, 2024 (members of DLA, DCI and DSS were present) and on March 5, 2024 (members of DLA and DSS were present) to discuss additional details of the irregular activities that DSS had discovered.

Based upon the above predication, DLA determined that special reasons existed for DLA to use the authority granted in SDCL 4-11-2 to conduct a special audit of certain books and records of DSS. It was furthermore determined that DLA, with court authorization, would be cooperating with law enforcement in their financial investigation into these matters.

II. Limitations

Due to various records retention policies, very few records were available for the period of June 1, 2010 through March 6, 2017; and as a result, irregular transactions made during this period were not included in the findings of this report. There were 117 irregular transactions totaling \$840,756.95 during this period.

III. Executive Summary

We conducted a review of the transactions processed through DSS's Family and Child Information System (FACIS), canceled checks provided by the State Auditor's Office and American Bank and Trust (formally American State Bank) banking records for the period March 7, 2017 through April 30, 2023.

Our review included examination of relevant documents and records along with discussions with appropriate personnel.

Based on the procedures performed during the special review, we have developed three findings that are separated based on the records available to us during the review. The findings are discussed in Section VI of this report.

IV. Scope

The specific objectives of the special review were as follows:

1. Determine if the transactions, that a former DSS employee was involved with, to American Bank and Trust were proper and to determine if any other DSS employees appeared to be involved with these transactions.
2. Determine if there were any other irregular transactions that could be identified and, if so, determine the validity of such transactions.
3. For transactions that were determined to be potentially improper, fully document the transaction cycle with all available supporting records.

V. Approach

To accomplish the objectives of the special review, we performed the following procedures:

- Gained a general understanding of how DSS employees were authorized access to the FACIS system, how rights were assigned to those employees and the steps taken to produce a payment from FACIS.
- For the transactions that appeared to be irregular, we obtained and compared the transactions identified on the FACIS system to the canceled checks provided by the State of South Dakota's Office of the State Auditor. We then compared these transactions to the American Bank and Trust records that included bank statements, debit slips and cash out tickets, when available.
- Examined all additional records provided by American Bank and Trust.
- Performed an analysis of all payment transactions on FACIS, which indicated a specific former employee of DSS was involved with, to determine if we could identify any other patterns that we felt needed to be investigated further.
- Performed an analysis of the information available from FACIS of the irregular transactions to determine if any other employees appeared to be involved with the irregular transactions.
- Performed an analysis of all remaining payment transactions on FACIS to determine if we could identify any other patterns that we felt needed to be investigated further.

VI. Findings

Based on the procedures performed, our significant findings are as follows:

FINDING 1

During the period from March of 2019 through December of 2022, 62 transactions were identified as being initiated from DSS's FACIS system to American Bank and Trust. This resulted in 46 checks being printed by the State of South Dakota's Office of the State Auditor. In all 46 cases the canceled checks were endorsed to DSS Child Protection Services (Child Protection Services, Child Protection or CPS). For 45 of the canceled checks, an additional endorsement had been made in the form of former DSS employee Lonna Carroll's name or initials. These checks were deposited into various local bank accounts in DSS's name at American Bank and Trust, and then on the same day the funds associated with those deposits were withdrawn in the form of cash. The following is a summary of the evidence and information that supports our finding:

1. During the above stated period copies of 46 canceled checks issued to American Bank and Trust for a total amount of \$591,305.20 were obtained from the Office of the State Auditor and examined. All of the 46 canceled checks were endorsed to DSS Child Protection Services (Child Protection Services, Child Protection or CPS), and of that total, 24 of the canceled checks had an additional endorsement of the name of "Lonna Carroll" on the canceled checks, 21 of the canceled checks had an additional endorsement of the initials "lc", and one of the canceled checks did not have a name or initials associated with the endorsement. For the one check with no name or initials endorsing it, the handwritten endorsement on the canceled check appeared to be consistent with the other canceled checks examined.
2. For the same period noted above, we obtained copies of all available bank statements, debit slips (these documents show how much was withdrawn and who withdrew the funds) and cash out tickets (these documents show that the funds were withdrawn in the form of cash). The following procedures were performed relating to these bank records:
 - a. Using the bank statements, we compared each FACIS transaction to a corresponding deposit into a DSS bank account at American Bank and Trust.
 - b. We examined each available debit slip to determine if the amount that was deposited had been withdrawn from the bank account on the same day and to determine who had withdrawn the funds. In all but one instance, the same amount had been withdrawn the same day the deposit was made and in each case the debit slip indicated the name of Lonna Carroll on the debit slip withdrawal form. (In the one case where the deposit and withdrawal did not agree there was a difference of \$.03 cents.)

- c. We examined the available cash out tickets and determined, for those available, each withdrawal was made in cash.

A summary of these transactions and the available bank records follows:

Available Records	Total Number of Cancelled Checks	Total Number of FACIS Transactions	Total Dollar Amount
Cancelled State Issued Checks, Bank Statements, Debit Slips, and Cash Out Tickets	42	58	\$ 552,780.17
Cancelled State Issued Checks, Bank Statements and Debit Slips (Cash Out Tickets were not available due to the bank purging of these records based on their records retention policy.)	3	3	28,575.03
Cancelled State Issued Checks and Bank Statements (Debit Slips and Cash Out Tickets were not available due to the bank purging of these records based on their records retention policy.)	1	1	9,950.00
Total	46	62	\$ 591,305.20

FINDING 2

During the period from March 7, 2017 through February 2019, 36 transactions were identified as being initiated from DSS's FACIS system to American Bank and Trust. This resulted in 35 checks being printed by the State of South Dakota's Office of the State Auditor. In all 35 cases the canceled checks were endorsed to DSS Child Protection Services (Child Protection Services, Child Protection or CPS) and contained an additional endorsement of the initials "lc". In 34 cases there were bank statements provided that showed the funds being deposited into various local bank accounts in DSS's name at American Bank and Trust and then on the same day those funds were withdrawn. The following is a summary of the evidence and information that supports our finding:

1. During the above stated period copies of 35 canceled checks issued to American Bank and Trust for a total amount of \$345,603.58 were obtained from the Office of the State Auditor and examined. All 35 canceled checks were endorsed to DSS Child Protection Services (Child Protection Services, Child Protection or CPS) and contained the additional endorsement of the initials "lc".
2. For the same period noted above, we obtained copies of all available bank statements (all of the debit slips and cash out tickets had been purged by American Bank and Trust based on the bank's records retention policy) and compared each FACIS transaction with a corresponding deposit noted on the bank statements and a corresponding withdrawal on the same day the deposit was made. It was noted that one bank statement relating to one of the checks had been purged by American Bank and Trust based on the bank's records retention policy.

A summary of these transactions and the available bank records follows:

Available Records	Total Number of Cancelled Checks	Total Number of FACIS Transactions	Total Dollar Amount
Cancelled State Issued Checks and Bank Statements	34	35	\$ 335,764.27
Cancelled State Issued Checks (Bank Statements were not available due to the bank purging of these records based on their records retention policy.)	1	1	9,839.31
Total	35	36	\$ 345,603.58

FINDING 3

In July of 2021, five local bank accounts in the name of SD Child Protection Services at American Bank and Trust were closed. The name of a former DSS employee, Lonna Carroll, was noted on the bank debit slips. The total amount withdrawn, which was in the form of cash withdrawals, was \$2,940.72. The following is a summary of the evidence and information that supports our finding:

1. For the five transactions, we obtained copies of the applicable bank statements, debit slips, and cash out tickets. The following procedures were performed relating to these bank records:
 - a. For each of the transactions, we compared the amount being withdrawn on the bank statement to the debit slips which in each case had the name of Lonna Carroll as the individual making the withdrawals.
 - b. We examined each of the cash out tickets and determined that each of the withdrawals was made in cash.

VII. Summary of Findings

The following table provides a summary of the irregular transactions, which appear to be misappropriated, as identified in the previous three findings:

Source	Total Number of Cancelled Checks	Total Number of FACIS Transactions	Total Dollar Amount
Finding Number 1	46	62	\$ 591,305.20
Finding Number 2	35	36	345,603.58
Finding Number 3	0	0	2,940.72
Total	81	98	\$ 939,849.50

VIII. Recommendation

We recommend the Department of Social Services consult with legal counsel and consider options for the recovery of amounts identified in this report and the cost of our special review.