

# FRAUD INVESTIGATION REPORT

## Investigation Summary

The Department of Social and Health Service's Internal Audit Office notified our Office regarding a potential loss of client trust funds, as required by state law.

The Department initiated an investigation and determined a misappropriation totaling \$12,331 had occurred between January 1, 2010 and April 11, 2014. We reviewed the Department's investigation and agree with its conclusion. The Department has filed a report with the Washington State Patrol as required by law.

## Background and Investigation Results

The Department's Fircrest School (Fircrest) is located in Shoreline, and operates on an annual budget of approximately \$46.9 million. Fircrest is home to approximately 200 developmentally disabled individuals and employs approximately 560 staff. Residents live in cottages located on the school's campus. Between 10 and 16 clients live in each cottage and are staffed 24 hours a day by approximately 18 employees who work eight-hour shifts. Each cottage is managed by an Attendant Counselor Manager, who is responsible for the supervision and management of the cottage.

A goal of the institution is to integrate residents into the community and encourage growth and participation in daily living activities. This is done by involving residents in vocational training programs, facilitating their attendance at community events, and assisting them in the use of their personal funds to purchase items that support their interests and personal needs.

Fircrest holds resident funds in trust for the majority of their clients. When a resident needs spending money, the resident or a staff member completes a Fircrest Cash Withdrawal form, stating the amount of funds requested and the purpose of the request. The form is signed by counseling staff and submitted to the Business Office where the funds are held and disbursed. After a purchase is made, receipts are returned to the Business Office. To facilitate skill development, residents are encouraged to participate in this process to the fullest extent of their abilities, including requesting and picking up funds, shopping, attending events, and eating out at restaurants.

Staff at Fircrest contacted the Department's Internal Audit Office about questionable receipts that led to an investigation into the management of client funds in one living unit, involving 34 residents over a period of approximately four years. We reviewed the results of the Internal Audit Office investigation and agree with its conclusion.

The Internal Audit Office identified 935 transactions involving \$12,331 in questionable cash requests and expenditures handled by one Attendant Counselor Manager (manager) meant for residents in the living unit he managed. The manager's work schedule was 8:00 am to 4:30 pm Monday through Friday and he lived in Everett, which is approximately 20 miles away from Fircrest.

The Department's investigation summarized the questionable transactions into five categories. An example of each transaction type and dollar amount for each category is described below.

### **Weekend purchases**

The Department identified 189 transactions, totaling \$1,533, when weekend purchases were made by the manager. For example:

The manager withdrew \$20 from six different client accounts on January 21, 2014, and indicated the purpose of the withdrawal was for groceries. The manager submitted a receipt for a shopping trip on Saturday, February 1, at a grocery store in Everett. Items purchased included frozen and perishable items. Time and attendance records show the manager did not work on February 1 and the client outing log did not show any clients charged for the grocery purchase went on an outing February 1 .

### **Purchases after 5 PM**

The Department identified 201 transactions, totaling \$1,404, for purchases made by the manager that occurred after 5 PM. For example:

The manager submitted a receipt for two clients printed at 8:12 PM on August 21, 2013 for a Mukilteo restaurant. Payroll records for the manager show he was on leave the same date. The client outing log showed one of the clients charged for food was out for dinner, but not in Mukilteo. The other client made an off-campus delivery that day, but was not out for dinner.

### **Purchases in questionable cities**

The Department identified 51 transactions, totaling \$418, for purchases made in cities outside of Shoreline. For example:

The manager purchased Valentine gifts on a debit card that included flowers and chocolates on the afternoon of Friday, February 14, 2014 in Everett. The manager requested reimbursement the following Tuesday on behalf of a resident. The outing log does not indicate the resident left Fircrest on February 14.

### **Purchases not supported by receipts**

The Department identified 134 transactions, totaling \$6,724, not supported by required receipts. For example:

From October 2013 to March 2014, the manager authorized the withdrawal of and picked up cash for one client totaling \$4,525. The stated purpose for the withdrawals was for shopping, outings, energy drinks and groceries. Receipts were not returned showing what purchases were made.

### **Withdrawals both authorized and received by manager**

The Department identified 360 transactions, totaling \$2,252, when the manager was the only employee who signed cash withdrawal forms. For example:

On December 20, 2013, the manager submitted a cash request form for groceries and meal replenishment and charged 12 different client accounts \$10. The manager signed as the employee who requested, approved and picked up the cash for these withdrawals. The manager submitted a grocery receipt dated January 8 showing a personal check was tendered for payment. A review of the resident outing log shows only one of the clients charged for the groceries was on an outing on that date and he was dining out at a local restaurant.

The former manager has not responded to requests by our Office for an interview to discuss these matters. He resigned on June 16, 2014.

## **Internal Control Weaknesses**

The Department found:

- Controls over cash disbursements were not adequate to prevent the loss of resident funds.
- Resident fund procedures did not provide clear guidance about proper segregation of duties.

Additionally, our review found the following weaknesses:

- Expenditures from client trust fund accounts were not independently monitored.
- Fiscal Office staff did not adequately monitor cash requests and withdrawals. Funds were withdrawn without requiring documentation that the client actually received the cash or goods or services their accounts were charged for.

## Recommendations

We recommend the Department strengthen internal controls over client trust accounts at Fircrest by:

- Monitoring client accounts.
- Developing policies and providing training to staff on the proper segregation of duties between staff that request withdrawals and handle client funds.
- Ensure Department policies over client trust funds are followed by staff.

Any compromise or settlement of this claim by the Department must be approved in writing by the Attorney General and State Auditor as directed by state law (RCW 43.09.330). Assistant Attorney General Matthew Kernutt is the contact person for the Attorney General's Office and can be reached at 360-586-0740 or [mattk1@atg.wa.gov](mailto:mattk1@atg.wa.gov). The contact for the State Auditor's Office is Sadie Armijo, Deputy Director of Local Audit, who can be reached at (360) 902-0362 or [Sadie.Armijo@sao.wa.gov](mailto:Sadie.Armijo@sao.wa.gov).

## Department's Response

*In response to the SAO's audit, the Department agrees with the recommendations of the Fraud Investigation Report and has taken steps to enhance internal control for improving and securing processes.*

- *New cash handling procedures were implemented in September 2014.*
- *The Attendant Counselor Manager (ACM) was investigated by Residential Care Services and will be posted on the Residential Care Services Registry. State law prohibits this former ACM from being employed in the care of and having unsupervised access to vulnerable adults per RCW 74-39A.056 (2).*
- *An internal audit of Fircrest School will be initiated by DSHS Operations Review and Consultation in September 2015. The CIBS Fiscal Office and client funds will be reviewed as part of this audit.*

## State Auditor's Office Remarks

We thank Agency officials and personnel for their assistance and cooperation during the investigation.