

# INVESTIGATION REPORT

## Investigation Summary

State law requires state and local governments to notify the Office of the State Auditor when they become aware of a known or suspected loss of public funds or illegal activity.

The Department of Social and Health Services (Department) notified our Office of four such instances involving client funds between July 5, 2017, and February 12, 2018. The Department conducted four separate investigations of contracted providers.

We reviewed the Department's investigations and agree with their conclusion that \$19,369 in client funds was misappropriated between April 2, 2015, and February 6, 2018.

*Summary of misappropriation, and funds repaid to clients:*

Investigations	Total assigned misappropriation	Total unassigned misappropriation	Amount repaid to client(s)	Amount owed to client(s)
Provider A	\$0	\$9,221	\$9,221	\$0
Provider B	\$2,596	\$4,920	\$7,516	\$0
Provider C	\$0	\$2,049	\$2,049	\$0
Provider D	\$583	\$0	\$583	\$0
<b>TOTALS</b>	<b>\$3,179</b>	<b>\$16,190</b>	<b>\$19,369</b>	<b>\$0</b>

## Background

The Department's Developmental Disabilities Administration (DDA) contracts with supported-living providers that help people who have developmental disabilities with daily living activities and with the social interactions needed to live in the community. Clients pay for their own housing, meals, clothing and other living expenses using their personal resources, including income earned through employment and Supplemental Security Income (SSI) benefits.

In many cases, providers are the "representative payee" for client accounts and oversee all client financial matters. A representative payee is a person or organization appointed to collect or manage the benefits of a beneficiary (client) who cannot manage his or her own money. Each supported living provider performing representative payee service designates staff to manage the finances of clients the provider serves.

Washington Administrative Code (WAC) Chapter 388, Section 101D "Requirements for Providers of Residential Services and Supports," describes the responsibilities of service providers managing client funds. The responsibilities include, but are not limited to:

- Assisting with financial transactions on the client's behalf, such as withdrawing from and depositing into the client's bank accounts
- Developing and implementing an individual financial plan for each client
- Separately tracking each client's money
- Ensuring common household expenses are shared and paid equitably among all clients in a household
- Retaining receipts for every purchase made with client funds over \$25
- Performing monthly reconciliations of client accounts, including bank accounts and cash, and verifying the accuracy of account reconciliations

Department staff perform periodic, unannounced onsite reviews of supported living providers to determine if providers comply with program rules. The Department communicates any instances of noncompliance to the provider in a Statement of Deficiencies letter. Providers must respond to all deficiencies with a Plan of Correction that adequately addresses each deficiency.

## **Investigation Results**

### *Provider A*

Provider A is a community residential services and support agency located in Spokane. Provider A contracts with the Department to serve clients with developmental disabilities enrolled in the Department's Supported Living Program.

In August 2017, the Department contacted our Office about a potential loss of funds at Provider A. We reviewed a randomly selected sample of supported living clients who received representative payee services from the provider, for the months of January through April 2017. Provider A and the Department followed up with additional reviews that included all transactions occurring between July 2016 and January 2017.

Provider A's internal policy prohibited cash withdrawals from client bank accounts using Automated Teller Machines (ATM). Several people had access to the company safe where the ATM cards were located.

The reviews identified nine supported living clients who had funds from their personal bank accounts withdrawn through ATM transactions. During our review, we identified \$5,508 in unsupported cash withdrawals. Provider A then expanded the review timeframe for those nine clients and identified an additional \$2,900 in unsupported ATM withdrawals. The Department followed up with Provider A and found an additional \$813 in unsupported cash withdrawals from the nine client accounts. The nine clients had a collective \$9,221 withdrawn from their accounts. Provider A could not provide documentation to substantiate the purpose of the transactions or evidence to indicate what the client funds were used for. Additionally, Provider A agreed that misappropriation had occurred because company policy did not permit ATM withdrawal.

Provider A requested, but did not receive, surveillance photographs from the bank's ATM to confirm who made the ATM withdrawals. The Department could not identify the individual(s) responsible for the misappropriation.

The Department concluded, and we agree, that Provider A failed to comply with numerous program requirements, including to:

- Perform monthly account reconciliations;
- Verify the accuracy of account reconciliations; and
- Maintain supporting documentation for purchases and/or withdrawals of client funds exceeding \$25.

Additionally, Provider A lacked policies and procedures for reconciling client accounts using bank statements and actual purchase receipts. A new employee who reconciled the accounts was told by a manager to ignore the ATM withdrawals. Provider A also failed to ensure its own policies and procedures regarding ATM withdrawals were strictly followed.

Because of its investigation, the Department issued a Statement of Deficiencies letter citing Provider A for failure to adequately monitor client funds.

We verified that Provider A fully reimbursed each of the client accounts, totaling \$9,221.

#### *Provider B*

Provider B is a community residential services and support agency located in Seattle. Provider B contracts with the Department to serve clients with developmental disabilities enrolled in the Department's Supported Living Program.

During an unannounced inspection of the Provider B location in December 2017, Department staff reviewed financial records for six clients. The staff concluded that Provider B failed to ensure all purchases made with client funds were supported by documentation and were made only for allowable purposes. The Department identified a misappropriation of more than \$7,500.

Department staff found Provider B failed to comply with numerous program requirements, including to:

- Perform monthly reconciliations of client accounts and ensure that reconciliations performed were verified by a second individual;
- Ensure monthly reconciliations of client accounts are not performed by individuals who initiate financial transactions on the client's behalf; and
- Maintain receipts for purchases made with client funds.

Provider B found a lead support staff member had authorized the transactions for five clients. The employee had been appointed as custodian of the clients' checkbooks, and would write checks

from the clients' accounts written to "CASH" for spending. This practice is allowable, but the Provider must have clear evidence to show how and where the cash was spent. In 22 of 45 cases we examined, the employee could not provide receipts for purchases she made with the cash. The employee was responsible for safeguarding the clients' checkbooks, as well as shopping for the clients and performing monthly account reconciliations to bank statements and purchase receipts.

The employee was required to submit her client account reconciliations each month to management for final review. The employee omitted receipts when submitting the documentation to management, and could not explain the reason(s) for missing documents when the Department and Provider B performed further reviews. Management at Provider B did not follow up on purchases with client funds that did not have supporting documentation to justify the transactions.

After the Department's investigation, Provider B gave our Office additional supporting documentation for unusual purchases made with client funds. Upon reviewing this additional support, we concluded the misappropriation from the five affected client accounts totaled \$7,516. The employee was responsible for at least \$2,596 of the misappropriation.

Provider B is currently updating its policies and procedures for managing client funds and has terminated the employee. On April 3, 2018, the former employee paid \$200 in restitution to Provider B. Provider B referred this matter to the Seattle police and an investigation is pending. Three clients are pressing charges against the former employee. One client is not pressing charges. The fifth client has died, and the client's beneficiaries are not pressing charges because Provider B made financial restitution.

We verified that Provider B reimbursed the five affected clients a total of \$7,516.

### *Provider C*

Provider C is a community residential services and support agency located in Bellevue. Provider C contracts with the Department to serve clients with developmental disabilities enrolled in the Department's Supported Living Program.

In 2017, outgoing client mail was stolen from Provider C's mailbox. The outgoing mail contained copies of signed checks from various client accounts that were for utility payments. After filing a police report, however, Provider C did not close the checking accounts of the affected clients and re-establish new accounts for each client to safeguard the client funds.

In February 2018, while reconciling the client's checking account, the Financial Coordinator for Provider C noticed two purchases with an online vendor from the client's account that appeared to be improper. Between July 2017 and January 2018, a client was admitted to a local hospital on several occasions, during which time Provider C continued to manage the client's funds. The hospital stays coincided with the dates of suspicious activity. Provider C interviewed all staff

members who assisted the client on the dates in question and confirmed that the purchases were not made by any residential staff at Provider C.

When Provider C contacted the affected client's bank, it discovered that similar transactions had occurred in the preceding months that also followed the mail theft, identifying eight fraudulent transactions amounting to more than \$2,000.

We found Provider C did not comply with multiple program requirements, including to:

- Perform monthly account reconciliations for the client;
- Ensure it obtains signatures from the client and their legal representative on the client's individual financial plan; and
- Protect the client from harm, including financial exploitation.

Provider C submitted reports to the Bellevue Police Department, as well as the Department's Complaint Resolution Unit and Adult Protective Services. There is an ongoing investigation by the Bellevue Police Department, and someone not connected to the Provider has been identified in connection with the theft; however, charges have not been filed at the time of this report.

Adult Protective Services investigated the allegations of financial exploitation at Provider C and found the allegations to be substantiated. The Department cited Provider C in March 2018 for failure to reconcile and verify client accounts on a monthly basis, and failure to develop a plan to protect the client from financial exploitation after becoming aware of suspicious activity from the client's account

The client's bank reimbursed the client \$540 in January 2018. We verified Provider C repaid the remaining outstanding total of \$1,509 to the client in February 2018.

#### *Provider D*

Provider D is a community residential services and support agency located in Kennewick. Provider D contracts with the Department to serve clients with developmental disabilities enrolled in the Department's Supported Living Program.

While performing a monthly account reconciliation for one client, Provider D found unauthorized charges on the client's Electronic Benefits Transfer (EBT) card that raised suspicion because the client was in a hospital at the time. While reviewing the client's EBT card activity, Provider D found the card was used on nine separate occasions on February 5 and February 6, 2018, to make \$583 in unauthorized purchases from various grocery retailers and gas stations in Kennewick, Pasco and Spokane.

After confirming the client's EBT card was present and accounted for, Provider D interviewed all staff members with access to the client's EBT card. Interviews conducted February 7, 2018, revealed that one Direct Support Professional used the client's EBT card for personal shopping

while the client was away. The Direct Support Professional said they removed the card from an unsecured lock box at the end of their shift, and returned the card without detection shortly before their next scheduled work shift two days later. The employee was terminated.

Provider D submitted a report to the Kennewick Police Department, and an investigation is pending. Adult Protective Services and the Department's Complaint Resolution Unit responded to an incident report from Provider D alleging financial exploitation of a vulnerable adult. Both concluded that no failed provider practices occurred that warranted citation regarding client funds.

We confirmed Provider D reimbursed the client on March 6, 2018, for the \$583 in unauthorized EBT charges.

### **Internal Control Weaknesses Identified**

While the misappropriations occurred at the provider level, the Department is ultimately responsible for ensuring its contracted supported living providers follow state rules.

The Department did not adequately monitor its contracted supported living providers to ensure:

- Policies and procedures were in place to adequately safeguard client funds;
- Monthly reconciliations of client accounts were performed and secondary reviews of those reconciliations were completed to ensure accuracy; and
- Purchases made with, and withdrawals of, client funds were fully supported by documentation, and made only for allowable purposes under program rules.

### **Recommendations**

We recommend the Department strengthen internal controls over its monitoring of contracted supported living providers to ensure its contractors establish and maintain effective measures to safeguard client funds and comply with Department policies.

Specifically, we recommend the Department:

- Confirm that providers have policies and procedures in place to adequately safeguard client funds and track all client income and benefits;
- Monitor its contracted supported living providers to ensure reconciliations of client funds are performed monthly and verified by a second individual to ensure accuracy and completeness;
- Increase the frequency of its client fund reviews;
- Perform additional reviews of client funds at Provider B to ensure there is no risk of additional loss to other clients; and
- Ensure that purchases made with, or withdrawals of, client funds are fully supported by documentation and made only for allowable purposes under Department policy.

## Department's Response

*The Department concurs with the audit report.*

*The Department takes the matter of client financial exploitation very seriously. Within available staffing resources, DDA continues to conduct client fund reviews for supported living providers across the state. The Department will monitor compliance of service providers when financial exploitation is substantiated.*

*The Department's Residential Care Services (RCS) division contracts with individuals who perform the certification evaluation of supported living contractors. This certification includes on site-visits of client homes and supported living contractor's offices.*

*As part of the certification evaluation, site visits occur at least every 24 months. Department staff from RCS or Adult Protective Services visit the homes whenever issues of client abuse, neglect, exploitation or financial exploitation is reported. DDA currently employs a Management Analyst 5 to specifically assess and evaluate agency financial management systems and individual financial plans for sampled supported living contractors.*

*The Department will:*

- *Develop and offer a training that focuses on safeguards to prevent financial exploitation and theft.*
- *Develop a CARE provider bulletin for all providers related to safe money management.*
- *Provide optional templates that may be used by providers in creating Individual Financial Plans.*
- *Continue tracking loss of client funds by supported living contractors and ensure reimbursement occurs to each client.*
- *Within staffing resources available, continue the reviews of client funds managed by the residential agencies and verify compliance with Washington Administrative Code 388-101D that pertains to management of client funds.*

## State Auditor's Office Remarks

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