



Office of the Washington State Auditor
Pat McCarthy

Investigation Report

Department of Social and Health Services

**For the Investigation Period, March 12, 2013 through October 13,
2016**

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January 16, 2018

Department of Social and Health Services
Olympia, Washington

Report on Fraud Investigation

Attached is the official report on a loss of client funds at contracted providers of the Department of Social and Health Services. Between November 6, 2015 and October 13, 2016, the Department notified the State Auditor's Office of potential losses involving client funds. The notifications were submitted to us under the provisions of state law (RCW 43.09.185).

This report contains the results of our investigation (F-15-332) of three reported instances of improper management of client funds by Department contractors between March 12, 2013 and September 30, 2016. The purpose of our investigation was to determine if a misappropriation and/or mismanagement had occurred.

Our investigation was performed under the authority of state law (RCW 43.09.290) and included procedures we considered necessary under the circumstances.

If you are a member of the media and have questions about this report, please contact Assistant Director for Communications Kathleen Cooper at (360) 902-0470. Otherwise, please contact Fraud Manager Sarah Walker at (509) 454-3621.

Pat McCarthy

State Auditor

Olympia, WA

cc: Rick Meyer, External Audit Compliance Manager

FRAUD 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 three such instances involving client funds, between November 6, 2015, and October 13, 2016. The Department conducted three separate investigations of contracted providers. We reviewed the Department's investigations and agreed with their conclusions that \$2,761 in client funds was misappropriated between March 9, 2013, and March 2, 2015. We identified an additional \$12,572 in questionable expenses paid with client funds between August 1, 2014, and September 26, 2016.

Background

The Department of Social and Health Services, Developmental Disabilities Administration, contracts with supported living agency providers that help people with developmental disabilities in daily living activities and provide the social and adaptive skills necessary to live in the community. The clients pay for their own housing as well as for meals, clothing and other living expenses.

In many cases, providers are the representative payee for client accounts and oversee all client financial matters. 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. The reviews are to determine whether the providers are complying with program rules. The Department communicates any instances of noncompliance with program rules to the provider in a Statement of Deficiencies letter. Providers are required to respond to all deficiencies with a Plan of Correction that adequately addresses each deficiency.

Investigation Results

Provider 1

The Department completed two reviews of client funds at the Provider 1 location in August 2015, selecting random samples of supported living clients who received representative payee services from the provider.

During the reviews, the Department found seven supported living clients had funds deposited into a collective trust account – a practice not specifically prohibited in state rules. The Department reviewed supporting documentation for transactions from the collective account for the seven clients and found that the clients had a collective \$5,439 drawn from the trust account beyond what was needed, because the finance manager failed to reconcile transactions for each client.

Department staff concluded the provider failed to comply with numerous program requirements, including:

- Failure to separately track client funds and ensure expenses were shared equitably; and
- Failure to perform monthly account reconciliations.

As a result of its investigation, the Department issued a Statement of Deficiencies letter in which it cited Provider 1 for failure to adequately monitor client funds. We verified with the Department that each client account was reimbursed.

Provider 2

During an unannounced inspection of the Provider 2 location in October 2016, Department staff reviewed financial activity for six clients. The staff concluded that Provider 2 failed to ensure all purchases made with client funds were supported by documentation and were made only for allowable purposes. The Department identified a suspected loss of more than \$9,400.

Department staff found the provider failed to comply with numerous program requirements, including:

- Failure to perform monthly reconciliations of client accounts and ensure that reconciliations performed were verified by a second individual; and

- Failure to maintain receipts for purchases made with client funds.

As a result of its investigation, the Department issued a Statement of Deficiencies in which it cited Provider 2 for failure to adequately monitor client funds, including failure to perform monthly reconciliations of client accounts, and failure to maintain supporting documentation for more than \$9,400 in purchases with client funds. The Department's Residential Care Services division completed a follow-up visit and found the provider still did not verify reconciliations of bank accounts for three randomly selected clients. A staff member commented that, since the previous evaluation visit in October 2016, all client accounts had been reconciled by Provider 2, but no one verified the reconciliations were accurate.

Following the Department's investigation, Provider 2 submitted to our Office additional supporting documentation for purchases made with client funds. Upon reviewing this additional support, we concluded the actual amount of questionable purchases made with client funds was \$7,133.

Provider 2 reimbursed the four affected clients a total of \$6,724. We determined two of the four clients are still owed a total of \$409.

Provider 3

Provider 3 was responsible for managing personal funds and federal program benefits for a client in its care. The client received monthly federal financial assistance under the Supplemental Nutrition Assistance Program (SNAP).

In March 2015, a staff member at Provider 3 became aware that the client's Electronic Benefit Transfer (EBT) card was missing and that the client had not used the card since March 2013.

Provider 3 reviewed the purchase history for the card and determined the client's benefit card was used to make \$2,636 in unauthorized purchases at several grocery retailers in various counties. Provider 3 could not identify the individual(s) responsible for the theft.

A complaint was submitted communicating the lost card to the Residential Care Services' Complaint Resolution Unit (CRU) at the Department, and an investigation into the incident was performed. Residential Care Services' investigation confirmed the client's SNAP card was out of the client's possession, but was unable to identify the individual(s) responsible for the loss. We reviewed the Department's investigation and agree with the Department's conclusion.

Provider 3 did not document in the client's individual financial plan that the client was receiving SNAP benefits, and therefore, did not know to inquire about the missing card. The loss was not discovered until a staff member reported it missing to the provider.

Department staff also found the provider failed to perform monthly reconciliations of client accounts and subjected the client to financial neglect and exploitation.

Provider 3 reimbursed the client \$2,761, which was the amount of benefits assigned to the EBT card while it was out of the client's possession. The Department reported the client's EBT card stolen and canceled the EBT card in March 2015. A new EBT card was assigned to the client in April 2015.

Summary of misappropriated client funds and questionable expenses and funds repaid:

Investigations	Total misappropriated	Total questionable	Amount repaid to client(s)	Amount owed to client(s)
Provider 1	\$0	\$5,439	\$5,439	\$0
Provider 2	\$0	\$7,133	\$6,724	\$409
Provider 3	\$2,761	\$0	\$2,761	\$0
TOTALS	\$2,761	\$12,572	\$14,924	\$409

Internal Control Weaknesses Identified

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

- Policies and procedures were in place to adequately safeguard client funds;
- Client funds were tracked separately;
- Monthly reconciliations of client accounts were performed and secondary reviews of those reconciliations were completed to ensure accuracy;
- Purchases made with, and withdrawals of, client funds were fully supported by documentation and made only for allowable purposes under program rules; and
- Individual financial plans were complete and up to date with accurate income, benefit, and expense information.

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;

- Increase the frequency of its client fund reviews;
- Perform additional reviews of client funds at Provider 1 to ensure there is no risk of additional loss to other clients;
- Ensure that purchases made with, or withdrawals of, client funds are fully supported by documentation and made only for allowable purposes under Department policy;
- Review individual financial plans for all clients to ensure they are completed and up to date in accordance with Department rules; and
- Verify that all affected clients have been reimbursed.

Agency's Response

The Department concurs with the findings.

Department staff will ensure all affected clients are reimbursed. In addition, DDA staff continue to conduct client fund reviews for supported living providers across the state.

The Department has conducted follow-up reviews with two of the three providers. The third review (Provider-1) will be completed by February, 2018. The follow-up reviews verified the following standards:

- *Confirmed providers have policies and procedures in place to adequately safeguard client funds and track all client income and benefits;*
- *Verified provider practices to ensure reconciliations of client funds are performed monthly and verified by a second individual to ensure accuracy;*
- *Verified purchases made with, or withdrawals of, client funds are fully supported by documentation and made only for allowable purposes under Department rules;*
- *Verified individual financial plans for all clients are completed and up to date in accordance with Department rules.*

State Auditor's Office Remarks

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

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

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