



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

Department of Social and Health Services

For the Investigation Period January 1, 2015 through December 31, 2016

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February 20, 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 a contracted supported living provider of the Department of Social and Health Services. On February 24, 2017, the Department notified the State Auditor's Office of a potential loss involving client funds. This notification was submitted to us under the provisions of state law (RCW 43.09.185).

This report contains the results of our investigation of a misappropriation of client funds by Department contractors between from January 1, 2015 and December 31, 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: Mr. 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.

On February 24, 2017, the Department of Social and Health Services (Department) notified our Office regarding a potential loss of client funds caused by a supported living provider employee. We reviewed the provider's investigation and agreed with its conclusion that \$15,542 in client funds were misappropriated, and an additional \$3,316 in questionable expenses were paid with client funds between May 28, 2015, and November 29, 2016.

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 is unable to 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

Investigation Results

On February 21, 2017, a contracted supported living provider discovered a former Finance Manager misappropriated \$15,542 from 10 clients and found an additional \$3,316 in questionable transactions affecting nine clients between May 28, 2015, and November 29, 2016. The former Manager was permitted access to the finances of more than 48 clients, keeping the physical checkbooks for each client and having access to and control of client bank accounts. The former Manager was also responsible for performing monthly reconciliations of all client accounts.

DDA confirmed that the provider reimbursed the 19 clients \$18,858 to account for the reported losses. During a certification evaluation performed in early February 2017, the Department's Residential Care Services (RCS) unit concluded the provider failed to perform monthly reconciliations of client accounts, and did not establish proper segregation of duties among staff to minimize the risk of client financial exploitation. Additionally, the provider failed to verify the accuracy of account reconciliations the former Manager performed, and ensure each transaction with client funds was proper and supported by documentation.

Following receipt of the loss report from the provider, RCS performed a follow-up investigation and found the provider had not corrected the deficiencies that were previously identified.

The Department referred the incident to the Office of the Attorney General, Medicaid Fraud Control Unit (MFCU), for further investigation. MFCU investigators contacted the Office of the Inspector General (OIG), which assumed responsibility for the investigation. During an interview with an OIG special agent, the former Manager acknowledged writing checks to herself from 10 client accounts for personal use, and in some cases, forging the authorizing supervisor's signature on the checks. The former Manager also acknowledged altering the name of the payee on carbon copies of forged checks in an attempt to conceal her actions.

In October 2017, the former Manager pled guilty in federal court to one count of Social Security Fraud – Representative Payee Fraud and was ordered to pay \$15,984 in restitution to the Social Security Administration. Because the OIG investigation is confidential except to law enforcement, we were unable to reconcile the difference between the amounts identified by the provider and the amount the former Manager pled guilty to misappropriating in federal court.

Internal Control Weaknesses

The Department did not adequately monitor the provider to ensure:

- Monthly reconciliations of client accounts were performed and secondary reviews of those reconciliations were completed to ensure accuracy and timeliness
- Purchases made with, and withdrawals of, client funds were legitimate and fully supported with adequate documentation

- Clients were not subjected to financial exploitation

Recommendations

We recommend the Department strengthen internal controls over its monitoring of the provider to ensure effective internal controls are established to safeguard client funds and comply with Department policies.

Additionally, we recommend the Department:

- Confirm the provider has policies and procedures in place to adequately safeguard client funds
- Ensure the provider has adequate segregation of duties related to managing client funds
- Monitor the provider to ensure reconciliations of client funds are performed monthly and are verified by a second individual to ensure accuracy and timeliness
- Increase the frequency of its client fund reviews
- Ensure that purchases made with, or withdrawals of, client funds are fully supported by documentation and made only for allowable purposes according to Department policy

Agency's Response

The Department concurs with the audit report.

The Department takes the matter of client financial exploitation very seriously and we continue to conduct client fund reviews for supported living providers across the state.

As of December 19, 2017, the Social Security Administrations informed the provider they are no longer the representative payee for the clients.

The Department will continue to review supported living agencies who manage client funds. Our review will:

- *Confirm the provider has policies and procedures in place to adequately safeguard client funds;*
- *Verify the provider performs reconciliations of client funds are monthly and that they are verified by a second individual to ensure accuracy and timeliness;*
- *Ensure the provider maintains adequate segregation of duties in regards to managing client funds.*

- *Verify purchases are made with, or withdrawals from, client funds are fully supported by documentation and are made only for allowable purposes under Department rule;*

If staffing allows, the Department will increase the frequency of client fund reviews across the state. Additionally, the Department will include internal control testing in our client fund reviews to ensure funds are safeguarded and that the controls comply with Department policies.

State Auditor's Office Remarks

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

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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.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

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We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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