

# Internal Audit Findings (Consumer Funds/Property) Fiscal Year 2020

All Provider contracts have a clause requiring them to adhere to Department of Disabilities and Special Needs (DDSN) directives and standards. DDSN directive 200-12-DD, "Management of Funds for People Participating in Community Residential Programs" requires Providers to establish and implement controls to adequately safeguard consumers' personal funds from loss by theft or misappropriation. "A checking and/or savings account must be established by the provider for each individual and maintained according to the following guidelines. (a) This account must be separate from any other accounts of the provider. (b) Each account will be in the individual's name and social security number, or will indicate that the account is for the benefit of the individual." Appropriate documentation should be obtained and retained on file to support the use of all consumers' personal funds with documentation reviewed for proper approvals and appropriate signatures. The bank reconciliation and receipts must be retained on file for at least six years; or, if an audit exception is found, until resolution of the audit.

The Custody section of the directive states: "Providers are charged with managing personal funds in accordance with individualized Financial Plans as established by each person's Program Team. A Financial Plan is an annual personal budget that addresses all expected income and other known resources, all expected financial obligations/other expenditures, and necessary accumulations of resources to address long term (greater than one year) financial goals."

The Financial Rights section of directive 200-12-DD states that the consumer has the right: "To have their personal funds managed in a way that will not jeopardize Medicaid eligibility or other governmental benefits. To receive a complete accounting of their personal funds at least quarterly."

In addition, the section on Financial Management states: "Provider staff should follow each person's established Financial Plan. The Financial Plan is developed as part of an overall program for each person receiving residential services and it must be included or referenced as required by residential standards. Personal funds must not be borrowed, loaned or co-mingled by the Provider or another person or entity for any purpose. Personal funds must not be combined or co-mingled in any way with Provider operating funds. Generally, personal funds should not be used to pay the cost of staff expenses except to the extent that established fees for services are used to cover Provider operating costs. Only under extraordinary and well defined circumstances, (i.e., when special arrangements are made during a person's plan meeting), should staff expenses be paid using personal funds. Each Provider should develop and document a policy addressing occasions if and when staff expenses may be paid from personal funds. Documentation of the decision to use personal funds to pay staff expenses and all supporting documents and receipts must be kept in the person's permanent file. Provider staff members who have direct access to accounts containing personal funds must have sufficient financial skills to properly maintain the financial records. Reconciliation of accounts containing personal funds should be assigned to a Provider staff member with sufficient financial skills to accurately reconcile the accounts. That staff member must not have the authority to sign documents on the personal funds accounts. At least once each quarter, a review of all account records must be done by a Provider staff member with sufficient knowledge of each person's financial needs and the ability to determine the reasonableness of expenditures. A report of all account activity occurring that quarter should be given to each person with personal funds managed by the Provider. Providers should develop and document a policy addressing the means and the extent to which staff are required to review the account information with each person. Documentation of all uses of personal funds must be maintained in a manner sufficient to demonstrate the amounts and purposes for all expenditures and sources of all income."

DDSN directive 200-01-DD, "Personal Funds Maintained at the Residential Level" is for the purpose of explaining specific control procedures for the secure handling of consumer funds retained in the form of cash at the residential level on behalf of people receiving residential services from the DDSN.

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According to the directive, “a reasonable and prudent cash maximum shall be set for each person in the residence. The maximum should be based on his/her established financial goals or priorities and documented in his/her Financial Plan. Any time a person’s cash level reaches his/her established maximum, the excess shall be transferred to his/her checking account for safekeeping. The current personal cash maximum is \$50.00, unless a different maximum has been programmatically supported for the person and documented in his/her Financial Plan... A locking cash box shall be maintained in a secure location at each residence for the sole purpose of securing cash for the people living there... Access to the cash box shall be limited to a minimum number of staff... Separate cash ledger sheets for each person in the residence shall be maintained in a location separate from the cash box... All cash ledger sheets shall be balanced regularly to the cash held for each person in the residence... Balancing should be done at least monthly, at a minimum, and be performed by a staff member who does not normally handle day-to-day cash transactions. Balancing shall be denoted on ledger sheets by writing "Balanced on (date)" followed by the staff member’s signature. Staff should not sign the ledger sheets until after physically counting the money to verify that the records are correct and all cash is accounted for.”

In addition, Social Security’s Guide for Organizational Representative Payees states in the Type of Bank Account section: “You must establish a fiduciary savings or checking account at a bank, trust company, credit union, or savings and loan association that is insured under Federal or State law. A fiduciary account is an account established by a person or entity for the benefit of another party. We may request that you provide the depository account records from your financial institution to prove the existence of a fiduciary account.”

Finally, according to the fixed price bid solicitation (i.e., Request for Proposal) for the provision/purchase of services for people who are eligible for services from DDSN, Part III, Scope of Work, indicated that Specialized Therapeutic Family Home residential services must be provided in accordance with all applicable DDSN policies and directives.

The Providers were not always familiar with all of the requirements of DDSN contracts; directives 200-12-DD and 200-01-DD; and Social Security’s guidelines thus lacking an internal control structure which protected and substantiated the use of consumers’ funds for fiscal year 2014. Failure to comply with the requirements of the directives and Social Security guidelines, by establishing and implementing certain controls weakened the accountability over the consumers’ personal funds. In addition, failure to obtain and maintain sufficient and adequate documentation may result in the loss and misappropriation of consumers’ funds without early detection.

During our reviews of consumers’ personal funds, Internal Audit found that the Providers did not always manage these funds in accordance with DDSN directive 200-12-DD, “Management of Funds for Individuals Participating in Community Residential Programs.” During our reviews we found:

## **Bank Account**

1. Both (100%) consumers’ bank accounts were established incorrectly as they did not show the fiduciary relationship between the individual and the Provider, they were set up as individual accounts. In addition, both (100%) accounts only contain one authorized signer, the DDSN directive requires two authorized co-signers on the accounts.

The Social Security Administration and DDSN directive 200-12-DD requires certain controls be established and followed for handling consumers’ personal funds to ensure that funds are properly accounted for and adequately safeguarded. These include ensuring individuals’ bank account are

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established in a fiduciary relationship and that a minimum of two staff are listed as authorized co-signers on the account.

## **Bank Reconciliations**

1. Four of four (100%) Provider's bank reconciliations were not signed and dated by the reconciler.
2. Two of two (100%) consumers bank reconciliations were performed by a staff member who is also listed as an authorized signer on the bank signature card.

DDSN directive 200-12-DD requires certain controls be established and followed for handling consumers' personal funds to ensure that funds are properly accounted for and adequately safeguarded. The directive requires that Providers who manage consumer funds reconcile all bank statements to current checkbook/ledger balances within certain time frames. After reconciliation a notation indicating it has been completed should be written on the front page of the bank statement and in the check register. In addition, the reconciliation should be conducted by an independent staff member who does not have access to the funds.

## **Cash on Hand**

1. All four (100%) consumers' COH funds were not counted and/or reviewed by someone other than the person authorized to disburse or receive COH according to the documentation on file.
2. When conducting cash on hand counts, both (100%) consumers in the sample had cash on hand balances in excess of \$50.

DSN directive 200-12-DD requires certain controls be established and followed for handling consumers' personal funds to ensure that funds are properly accounted for and adequately safeguarded. With regard to cash on hand, records must be sufficient to show, at any given point in time; the amount of cash that is held that belongs to each individual in the residence; and all additions and uses of cash.

All cash held by staff should be counted at least monthly by a staff member who does not have authority to receive or disburse cash. The count should agree to the records and be documented in the cash record. In compliance with the directive, cash on hand should be limited to \$50 unless supported programmatically and documented in the individual's Financial Plan.

## **Cash on Hand Ledgers**

1. All four (100%) consumers' cash-on-hand (COH)/allowance ledgers were not maintained appropriately. Ledgers did not reflect a running balance, the actual amount of COH, and withdrawal/deposit amounts were not listed.
2. All four (100%) consumers' COH ledgers did not balance. The actual COH did not agree to the COH ledger.
3. One of five (20%) consumer's cash-on-hand (COH) ledger did not contain accurate information. (Ledgers did not show withdrawals/deposits instead showed the actual cost from the receipts).

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4. Five of five (100%) consumers COH ledgers did not contain documentation of a surprise monthly cash count by someone who does not receive or disburse cash.

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## Disbursements

1. For 26 of 90 (29%) disbursements, the check register date did not match the date on the actual check or date of transaction. Numerous transactions reflect checks being signed prior to the transaction date resulting in check entries showing as blank or entries out of sequential order in the check ledger. Also, we noted 18 of the 90 (20%) transactions occurred more than 48 hours after check issue date. It was noted that one transaction was completed 25 days after the check was signed.
2. One of 90 (1%) disbursements to a STABLE account in the amount of \$500.00 reflected a transfer for which a consumer never received credit. Once identified, the matter was quickly addressed and recovery of funds was initiated by staff. The amount was refunded via check and confirmed with a validated deposit receipt.
3. During our review, we noticed advance payments for rent for some consumers. When investigated further, at least one consumer had prepaid rent for up to three months because the consumer would not have income from work during the summer months. It was noted that during the previous summer, the consumer funds were deducted for rent monthly with the August 1, 2018, payment paying October rent. When questioned by IA, it was determined that the consumer should be refunded. The request was submitted and \$325 was refunded via check to the consumer and confirmed with a validated deposit receipt.
4. One of 58 (2%) disbursements totaling \$220.00 did not have sufficient documentation available to support the purchase. One expenditure showed as being paid with individual's cash on hand but the receipt showed payment by check.
5. For nine of nine (100%) disbursements the checks did not contain the signature of an authorized staff.
6. For six of 16 (38%) disbursements involving two consumers, the consumers nor an authorized signer signed their checks.

DDSN directive 200-12-DD requires certain controls be established and followed for handling consumers' personal funds to ensure that funds are properly accounted for and adequately safeguarded. In addition, appropriate documentation should be obtained and retained on file to support the use of the person's personal funds.

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## Financial Plans

1. For one of nine (11%) consumers, the Financial Plan was not updated to accurately reflect the monthly spending budget. The Plan specified \$50.00 per month on supplies and \$50.00 per month on snacks. For nine months of the review period, July 2018 to March 2019, the consumer spent \$1,575.87 on personal supplies and snacks with the average combined spending of \$175.10 per month.
2. All four (100%) consumers' financial plans were not updated to reflect all sources of known or anticipated income, including SNAP.
3. All four (100%) consumers were not receiving their weekly spending allowances as authorized in their financial plans. Additionally, the financial plans for the consumers reviewed did not specify an amount the consumer could handle independently.
4. Six of seven (86%) consumers did not have an updated financial plan on file. Financial Plans did not contain the correct amount of SSI and/or SSA benefits.
5. Both (100%) consumers' financial plans were missing monthly income and expenses.
6. Both (100%) consumers' financial plans did not indicate the amount of cash each person was able to manage, allowed to keep on their person, and the amount of residual funds from purchases the individuals' could manage.

DDSN directive 200-12-DD requires certain controls be established and followed for handling consumers' personal funds to ensure that funds are properly accounted for and adequately safeguarded. The directive requires all residential service providers manage residents' funds in accordance with an individualized Financial Plan.

## Financial Rights

1. Both (100%) consumers were missing the financial authorization forms for application of benefits (i.e., SSA/SSI) and management of personal funds. These forms document the Provider's authorization to apply for the consumers' benefits and manage the consumers' personal funds. Both (100%) consumers were missing additional required forms, to include: Individual Fee Schedule form and the Statement of Financial Responsibilities form.

DDSN directive 200-12-DD requires certain controls be established and followed for handling consumers' personal funds to ensure that funds are properly accounted for and adequately safeguarded. In addition, appropriate documentation should be obtained and retained on file to support the use of the person's personal funds.

## Medicaid Eligibility

1. Two of four (50%) consumers' bank account balances exceeded the \$2,000 Medicaid resource limit threshold.

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2. One of four (25%) consumers maintained over \$2,000 in their checking account for several months.

DDSN directive 200-12-DD requires certain controls be established and followed for handling consumers' personal funds to ensure that funds are properly accounted for and adequately safeguarded. In addition, the directive states under the Financial Rights, that the consumer has the right "To have their personal funds managed in a way that will not jeopardize Medicaid eligibility or other governmental benefits."

## **Personal Funds Drafts**

1. For 40 of 40 (100%) disbursements, the "Personal Funds Distribution Request Form" was not being completed and approved prior to purchase. Per Provider policy, disbursement forms should be filled out after purchases are made. DDSN policy requires staff to complete a purchase request form for all purchases. Note: A review of the Provider's prior audits found the "Personal Funds Distribution Request Form" was completed as a request for purchase and not a request for reimbursement after the purchases.
2. For 40 of 58 (69%) disbursements the Personal Funds Draft did not capture all pertinent information such as date, signatures or amount of cash returned.

The Social Security Administration's Guide for Organizational Representative Payees and DDSN directive 200-12-DD requires certain controls be established and followed for handling consumers' personal funds to ensure that funds are properly accounted for and adequately safeguarded.

## **Policies and Procedures**

1. Our review found that the Provider had not established a policy and procedures manual for the WAC programs to include: Screen Printing, Lawn Care, Car Wash, Janitorial, and Canner services.

The Agency should maintain policies and procedures for all program areas to ensure internal controls are made in accordance with the Agency's Internal Controls Policy, are approved by the Governing Board/Body, and are reviewed at least annually by the Executive Director.

## **Questionable Purchases**

1. One of 90 (1%) disbursements was questionable, in the amount of \$100, as it was for a charged off HSN credit card in the consumers' name with a balance of at least \$623 for which details could not be provided. When questioned, staff's response was that it was for several magazine subscriptions.
2. One of 90 (1%) disbursements contained a transaction for a certified copy of a birth certificate of which the consumer paid \$127.37. Due to lack of due diligence, this resulted in the consumer paying 463% more than utilizing online purchasing of a certified copy of a birth certificate through the Department of Health and Environmental Control website which cost \$27.50.

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## Room and Board

1. Once a room and board rate is approved, it stays in effect until a subsequent calculation is submitted and approved by the Cost Analysis Division. In the case of the Provider, a room and board increase was applied to residential consumers effective January 1, 2018, in the amount of \$1,559.87; however, the calculation was not submitted to DDSN Cost Analysis until November 20, 2018. As such, the Provider must use its previously approved Room and Board charges of \$1,024.11 for the period January 1, 2018, until the new calculation was approved.

An analysis of room and board payments and expenses paid by the Provider on behalf of the consumers was conducted and has resulted in overpayment of room and board charges affecting one residential consumer totaling \$350 for calendar year (CY) 2018.

DDSN directive 250-09-DD requires that all ... contracted residential service providers must establish an official policy for charging consumers for the cost of room and Provider and establish a monthly room and Provider charge (three meals a day and shelter type expenses) that is fair and equitable. In addition, the policy must address at a minimum both applying consumers' income toward the cost of the room and Provider and the determination of the room and Provider charge. In no circumstance, may the charge for room and Provider exceed the actual cost of room and Provider.

## Segregation of Duties

1. For the consumer in our sample selection whose funds are maintained in the collective checking account, we found the bank reconciliations are performed by a staff member who is also a signer on the collective checking account which lacks proper segregation on duties.
2. Our review of the Provider's WAC Programs to include: screen printing, lawn care, car wash, janitorial, and canner services found inadequate segregation of duties in regards to the reporting, billing, and reconciling of WAC services.

To achieve a proper segregation of duties, the assignment of responsibilities should be such that no one person has the authority to do two or more of the following: (1) authorize transactions, (2) record transactions; and (3) maintain custody of assets. Management should maintain an awareness of the internal control structure to ensure that reasonable policies and procedures exist and are maintained.

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## Personal Property

A review of consumers' personal property, and corresponding Personal Property Records (PPRs), found that residential staff did not always manage the consumers' personal property in accordance with DDSN directive 604-01-DD, "Individual Clothing and Personal Property." We verified the physical existence of their property items costing \$50 (\$100 effective November 1, 2017) or more and traced the items in their living areas back to the entries recorded on the PPRs. Our reviews found:

### Adequate Descriptions

1. Two of four (50%) individuals' PPRs did not always contain adequate descriptions and serial/model numbers (when applicable) for non-clothing items reviewed. For example, there were no serial numbers for several electronics.
2. Six of eight (75%) consumer's PPRs did not always contain adequate descriptions and serial/model numbers (when applicable) for non-clothing items reviewed. For example, there was no serial number, brand or size of the television.
3. Three of 12 (25%) consumer's PPRs did not always contain adequate descriptions and/or serial/model number for non-clothing items reviewed.
4. Two of three (66%) consumers' PPRs did not include adequate descriptions and/or serial numbers.

DDSN directive 604-01-DD, "Individual Clothing and Personal Property," requires providers to maintain an inventory of the individual's clothing and non-clothing items costing \$100 or more on an "Individual Personal Property Record." The inventory records should contain adequate descriptions, to include serial numbers where applicable; dates of purchase; and dollar values.

### Physical Inventory

1. One of four (25%) consumers had items that cost \$100 or more located in their room that was not listed on their personal property record.
2. Two of eight (25%) consumers had an item or items that cost \$50 (per Provider policy) or more located in their room that was not listed on their personal property record.
3. One of three (33%) consumers had items that cost \$100 or more located in their room that was not listed on their personal property record

DDSN directive 604-01-DD, "Individual Clothing and Personal Property," requires providers to maintain an inventory of the individual's clothing and non-clothing items costing \$100 or more on an "Individual Personal Property Record." The records should be kept current with additions and deletions being noted as they occur.