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INDEPENDENT STATE AUDITOR'S REPORT ON CERTAIN ACTIVITIES OF THE DR. HARRY C. SOLOMON MENTAL HEALTH CENTER-CLIENT FUNDS IN ACCORDANCE WITH CHAPTER 647 OF THE ACTS OF 1989

OFFICIAL AUDIT REPORT

SEPTEMBER 28, 1999

INTRODUCTION 1

The Dr. Harry C. Solomon Mental Health Center, through the Department of Mental Health's Office of Investigations, notified the Office of the State Auditor that potential improprieties existed in the center's client funds and Representative Payee Program operating activities. This notification was made in compliance with Chapter 647 of the Acts of 1989, and was based upon disclosures made by the center and subsequent developments as a result of the Office of Investigations' research. Our review, which covered the period July 1, 1997 to December 31, 1998, was performed in accordance with Chapter 647, which requires the Office of the State Auditor to determine the internal control weaknesses that contributed to or caused an unaccounted-for variance, loss, shortage, or theft of funds or property; and to make recommendations that address the condition found. Our recommendations, if adequately implemented, will assist the center during its administration of client funds; provide reasonable assurance that client funds and Representative Payee Program operations are in compliance with applicable state and federal regulations; and reduce the risk of a recurrence of the problems identified in this report.

AUDIT RESULTS 4

Inadequate Internal Control Procedures over Client Funds and Representative Payee Program Operations Resulted in the Potential Diversion and Misuse of Client Funds: Our review of the center revealed inadequate internal control procedures that resulted in limited assurance that client funds in the Representative Payee Program were not diverted or misused. We identified $55,135 in questionable costs that were accompanied by insufficient supporting documentation, photocopied invoices, duplicate or altered sales receipt slips, and disputable endorsements. Additionally, a handwriting expert's report indicated that four check endorsements totaling $470 appeared not to be the genuine signature of the client. As a result of our review, management initiated corrective action by eliminating certain operating practices viewed as high risks and drafting new internal control policies and procedures that are awaiting Department of Mental Health approval. In its response, the center indicated that it agreed with the results of our review and that corrective measures have been implemented resulting in a process that protects the best interest of clients and staff. 4

Subsequent Event: During the exit conference held on August 17, 1999, the Center's Director informed us that after reviewing the appropriate reports and details, (both internal DMH reviews and the State Auditor's report), the case manager associated with several of the noted deficiencies was released from his employment at the Center. Additionally, the Director informed us that the matter was referred by DMH to the Attorney General's Office for possible further review and action. 13

INTRODUCTION

Background

The Dr. Harry C. Solomon Mental Health Center is a community mental health center operated by the Department of Mental Health as authorized under the General Laws of the Commonwealth of Massachusetts. The center is part of a community-based comprehensive area system of mental health services, which include outpatient services, case management, and contracted community services for citizens of Billerica, Chelmsford, Dracut, Dunstable, Lowell, Tewksbury, Tyngsboro, and Westford. Any individual who lives in the geographical area served and meets the Department of Mental Health's eligibility criteria for priority clients can receive outpatient services. Priority clients are adults with serious or long-term mental illness and children with serious emotional disturbances or mental illness. The goal of treatment is to reduce disability, increase functioning, and maximize independence in the least restrictive setting possible through comprehensive assessment, treatment planning, and coordination of care. Through the comprehensive assessment, professional staff identify individuals deemed incapable of handling their finances because of mental or physical limitations, necessitating the appointment of a representative payee to be responsible for managing the client's funds and ensuring those funds are properly utilized to meet the needs of the client. As of July 1, 1997, the center has contracted with Tri-City Mental Health and Retardation Center, Inc., (Tri-City) to manage the Representative Payee Program.

In accordance with Chapter 647 of the Acts of 1989, the center, through the Department of Mental Health's Office of Investigations, notified the Office of the State Auditor that potential improprieties may exist concerning the administration of client funds in the Representative Payee Program, which were based on disclosures by the center's director and the subsequent developments as a result of the department's own investigation. Accordingly, our audit focused on the concerns over client funds expressed by the center and the Department of Mental Health's Office of Investigations.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 647 of the Acts of 1989, we conducted a review of client funds and the Representative Payee Program's internal controls with regard to the proper accounting and management of client funds, as well as compliance with federal and state regulations. Chapter 647 requires the Office of the State Auditor to determine the internal control weaknesses that contributed to or caused an unaccounted for variance, loss, shortage, or theft of funds or property; to make recommendations that address the correction of the condition found; to identify the internal control policies and procedures that need modification; and to report matters to the appropriate officials.

We conducted our review in accordance with applicable generally accepted government auditing standards. Our review focused on activities from July 1, 1997 to December 31, 1998, which includes the period in which improprieties were reported to exist.

To achieve our objectives, we reviewed internal controls to ensure that (a) client fund disbursements were valid, supported with sufficient detail that adequately documents the use of client funds, and properly authorized, (b) duties were properly segregated to act as a deterrent and reduce the risk and opportunities to commit and conceal defalcations, (c) adequate safeguards were designed and implemented to restrict access to and control over the issuance of client fund checks susceptible to theft and easily convertible to cash or personal use, and (d) adequate supervisory and monitoring controls were present to maintain continuity in a controlled environment and reduce the risk to program operations. Additionally, we (1) reviewed all documents produced during the generation and distribution of client fund checks; (2) obtained third-party verification to acquire evidential matter about the validity and accuracy of disbursements made from a client's account; (3) conducted an on-site review of the center and its Representative Payee Program administrator (Tri-City) to gain an understanding of the client funds and Representative Payee Program operations and information-gathering and record-keeping practices; and (4) reviewed, as necessary, other pertinent financial records relative to charges made to clients' accounts.

Furthermore, we interviewed the center's Director and appropriate program staff, the Department of Mental Health Office of Investigations' staff, and Tri-City's Representative Payee and Acute Community Care Team staff to obtain an understanding of the client fund operations. Additionally, we reviewed federal regulations governing the duties and responsibilities of a representative payee. Finally, we reviewed available supporting documentation for client fund disbursements.

AUDIT RESULTS

Inadequate Internal Control Procedures over Client Funds and Representative Payee Program Operations Resulted in the Potential Diversion and Misuse of Client Funds

As a result of a Dr. Harry C. Solomon Mental Health Center client's complaint regarding the potential misuse of his funds by his case manager, the Department of Mental Health initiated an investigation. The investigation included reviewing the client's and case manager's records; conducting a site visit to the client's home; and obtaining an independent analysis by a handwriting expert of the center's records, including the client's bank records. The handwriting expert's report disclosed four check endorsements totaling $470 that did not appear to be the genuine signature of the client. The report further stated that a high probability existed that signatures (endorsements) on three of four checks in question appeared to be the signature of the client's case manager. In addition, a sales receipt reviewed and presented as supporting documentation for a disbursement appeared to be altered with two different handwritings and types of ink. Accordingly, the Department of Mental Health notified the Office of the State Auditor of the alleged improprieties involving client funds.

Our review of the center's client funds and Representative Payee Program operations for the period July 1, 1997 to December 31, 1998 disclosed that improvements are needed in the center's internal controls to provide reasonable assurance that client funds are properly accounted for and to ensure compliance with applicable state and federal regulations. Specifically, our audit revealed that the center: (a) lacked written policies and procedures for the administration of client funds, (b) did not ensure that adequate documentation to support disbursements made from clients' accounts were being maintained and retained, (c) lacked effective supervisory and monitoring controls over the center's case managers and the Representative Payee Administrator activities, and (d) lacked adequate segregation of duties. We also found evidence of possible forgeries.

Chapter 647 of the Acts of 1989 established the minimum level of quality acceptable for internal control systems for state agencies of the Commonwealth. Internal control systems for state agencies should be developed in accordance with the Internal Control Guidelines established by the Office of the

State Comptroller. However, our review disclosed that the center, contrary to Chapter 647 of the Acts of 1989, had not developed and implemented an internal control plan inclusive of the client funds and Representative Payee Program activities, leaving client funds safeguarded to a lesser extent than required by state and federal regulations.

The center contracted with Tri-City Mental Health and Retardation Center, Inc., (Tri-City) to provide financial services to consumers with psychiatric disabilities, which included its appointment as representative payees by the Social Security Administration on behalf of the center's clients identified as in need of this service. Per the contract summary, Tri-City's duties included performing banking transactions based on preapproved budgets, recording and reconciling cash activity to the general ledger, and preparing financial reports on behalf of consumers. In accordance with Tri-City's Representative Payee policies and procedures, the case manager is required to complete a client budget, which dictates how the client's benefits will be spent. Per Social Security's Guide for Representative Payees, the duty of a representative payee is to keep informed of an individual's needs to choose alternatives for maximum benefits to be used for the individual's personal care and well-being. In fact, representative payees are required by law to use benefits properly.

Our discussions with Tri-City staff and the center's director revealed that, although Tri-City is designated as the representative payee by the Social Security Administration, both Tri-City and the center's director agreed that Tri-City was serving a bookkeeping function only and that decisions regarding client needs and the use of client funds remained the responsibility of the case managers. Nevertheless, the aforementioned understanding should have been clearly delineated in the center's contract to prevent any ambiguity, which noticeably existed between the center and Tri-City representatives during the early phase of our review. Moreover, detailed contractual documents serve as an effective tool in the measurement of contractual results.

Based on the client budget, which is signed by the client and the case manager, the Tri-City bookkeeper prepares weekly or monthly checks for allowances and other bills, such as rent and utilities. In addition, case managers can prepare, authorize, and submit a request form to the Tri-City bookkeeper to obtain supplemental client funds for emergency and special disbursements. Checks from client accounts are issued to clients, case managers, and other authorized individuals, per the client budget, at the Tri-City office located at the center. Checks are made available each Wednesday of the week. The individual receiving the check must sign the client's monthly calendar sheet on the date of receipt and confirm the total funds received by writing the dollar amounts.

The case manager's responsibilities include assisting clients in obtaining needed services, monitoring clients through office and home visits, and providing direct assistance to clients as needed to enhance independent living skills. Our examination of signatures on client monthly calendar sheets noted that all case managers, at one time or another, received allowance and special request checks on behalf of clients. However, our review of the center's operations revealed that the center lacked written policies and procedures and a monitoring process to ensure that case managers were properly handling and accounting for client funds. In addition, our review of special request forms revealed that the form lacked the client's authorization and that it is not a center requirement to obtain and document the client's approval. During our audit period, special request disbursements totaled $123,398. Furthermore, during our assessment of the center's internal controls, we determined that the control feature of segregation of duties was not being observed.

The absence of segregation of duties is best illustrated by the responsibilities entrusted to case managers. Specifically, the case managers are responsible for determining client needs; preparing budgets; preparing, authorizing, and submitting special requests and assisting clients with obtaining checks, cashing, and purchasing items requested. Moreover, we determined that case managers received little, if any, instructions or guidance endorsing acceptable practices and procedures for administering and accounting for client funds. Consequently, case managers establish their own individual practices and procedures (some designed for the convenience of case managers and clients) for handling and accounting for client funds. For example, one case manager instructed clients to endorse allowance and special request checks to his bank account, and then charged client purchases to his credit card. The case manager reasoned that allowance funds were given to clients several days a week instead of weekly because clients spent the funds within the first day and had no remaining funds for the week. Cases were handled in this manner for the case manager's convenience in managing his clients' funds. Although no improprieties came to our attention in this instance, the potential risk for the concealment of errors and the fraudulent conversion of assets existed. As a result of our review, this practice was discontinued.

Another internal control weakness identified during our audit was the lack of effective monitoring and supervision over the Representative Payee contractor and the case managers regarding client funds. The center's case supervisors are responsible to provide weekly supervision over case managers to provide assistance and monitoring support to assure that quality services are provided to clients. Our review revealed that supervisors do not review client fund accounts with case managers and only conduct site visits with clients if the case manager or individual reports a problem. Moreover, the center's management had not conducted any reviews of client accounts since Tri-City was contracted as the Representative Payee program administrator in July 1997. The lack of adequate supervisory and monitoring control procedures designed to prevent or detect discrepancies in the handling of client funds results in the increased risk of concealed irregularities.

To review controls over client funds, we examined account transaction reports obtained from Tri-City totaling $668,613 in cash disbursements for the 70 clients in the program during our audit period. To that end, we selected 35 client accounts totaling $400,450 in cash disbursements, including all the clients assigned to the case manager with reported discrepancies, for further testing of controls that included verifying files for Social Security records, budgets, signatures for check receipts, special request forms, and sufficient supporting documentation. Our review identified $55,135 (almost 14% of tested disbursements) in questionable costs due to the lack of sufficient supporting documentation, photocopied invoices, duplicate and altered sales receipt slips, and disputable endorsements. The following chart summarizes the results of our test:

Representative Payee Program Account Review

Results	Number	Total[1]
No Special Request Form on File	4	$553
No Signature on File for Check Receipt	55	$4,201
Case Manager Signs for Check Receipt	81	$7,925
No Supporting Documentation on File (Special Request Funds Only)	418	$40,311
No Evidence that Client Received Funds or Goods (Check Endorsed by Case Manager)	161	$10,238

These questionable costs are a result of inadequate controls over cash disbursements from client funds. Specifically, special request cash disbursements totaling $40,311 (approximately 50% of the $81,225 in special request disbursements tested), lacked appropriate supporting documentation for the disbursements from the client's account. Further, as previously mentioned, special request funds (checks) are processed with only case manager approval; client authorizations are not obtained. Disbursements noted from one client account included three payments totaling $49 for unauthorized food orders and one disbursement of $143 to repay money allegedly taken by a client from other individuals at her residence home. Our review found that charges made to the clients' accounts were based solely on case notes prepared by staff and no documentation was obtained from the client that authorized or attested to the validity of the disbursements made to repay these items. Also, our review noted payments from client accounts to a local pharmacy for purchases, including prescribed medication, that were processed by Tri-City even though supporting invoices lacked descriptions of the purchased items. Further, we found instances where case manager's signed pharmacy invoices charged to the center's pharmacy account with no further review, documentation, or authorization from the client or supervisors to substantiate

[1]Transaction totals that qualified for multiple categories are accordingly included under each category. For example, if a transaction totaling $400 revealed the lack of special request forms and inadequate supporting documentation, the $400 value is reported under each category.

disbursements made from client fund accounts for pharmacy purchases. Moreover, we noticed that no verification is conducted of pharmaceutical purchases to the client files to verify that a physician has prescribed the medication. Lastly, we found no evidence in client files that purported the receipt of goods.[2]

Further, our review noted $10,238 of checks endorsed by case managers including allowance and special request checks. Our review indicated that there was a lack of documentation supporting the receipt of funds or goods by the client when the checks were cashed. As a result of the absence of controls over client funds including policies and procedures and the lack of supervision, client funds were susceptible to loss, theft, and misuse.

We reviewed all eight client accounts of the case manager reported for alleged misuse of funds by a client who had not received items, including lamps and a mattress for which funds were removed from his account. We examined client files including canceled checks for authenticity of client signatures and proper supporting documentation. The results of our examination are summarized below:

- 34 checks totaling $2,553 for which we questioned the authenticity of client signatures involving five clients for checks cashed at a local pharmacy.

- The case manager received one check for $100 on August 3, 1998 for the stated purpose of purchasing a bureau and lamps as requested by the client. After inquiries were made by the center's staff in regard to the client's complaint of nonreceipt of items, the funds were redeposited to the client's account on September 23, 1998.

- A check received on March 4, 1998 by a case manager for $200 to purchase a mattress per the client's request; however, the client reported to center staff that the mattress was never received. Our review noted that no supporting documentation was located on file. Center staff conducted a site visit to the client's home and verified the item was not located on site.

- An altered photocopy of a sale receipt for $39.99 for the purchase of an electric broom. The original sale receipt was located in another client's file as supporting documentation for a similar disbursement.

- Four special request checks issued on October 27, 1997 from one client's account for (1) $175 for winter clothes; (2) $100 for winter coat, hat, and gloves; (3) $200 for sports tickets; and (4) $55 for flowers and presents. All four checks were received by the case manager and had no

[2]As a general practice, we noted that both case managers and clients cashed checks at a local pharmacy, which charges a $1 fee per check cashed, despite the fact that the clients bank is closer to the center and within a five-minute walk of the pharmacy. The center staff explained that cashing checks at the bank overwhelmed clients.

supporting documentation on file. In addition, three of the checks signature endorsements are questionable and were cashed at a local pharmacy. The case manager endorsed the fourth check.

- One client received a check from Social Security for back payment of benefits totaling $20,356. Per center management, the case manager was instructed to establish a budget for the disbursement of these funds. Our analysis revealed that the case manager did not establish a budget, and that center management lacked necessary monitoring procedures to ensure that their instructions were followed.

Furthermore, during the period of July 8, 1997 to February 25, 1998, the case manager submitted 55 special requests totaling $14,687. Our review of the special requests revealed the following supporting documentation deficiencies:

- 90 sales receipts and invoices, totaling $3,092, were photocopies rather than originals.

- 25 disbursements totaling $5,814 lacked supporting documentation.

- Numerous instances where special request forms and attached supporting documentation did not agree with the cited purpose for requesting supplemental client funds. For example, one special request was for $200 for clothing, however, supporting documentation disclosed a handwritten “purchased a stereo” statement and a newspaper advertisement.

- In four instances, special requests had supporting documentation, including nine duplicate photocopies of sales receipts totaling $413, that were submitted as supporting documentation for other client’s special requests.

- Our examination identified one special request check issued on July 30, 1997 for $249 and another on August 25, 1997 for $229 both to purchase a rocking chair. A sales receipt adequately supported the August 25, 1997 check, however, the first check issued to the case manager had no supporting documentation and no special request form on file.

- A special request check was issued on November 10, 1997 for $120 to replace an alternator in a client’s car. Although the alternator had a one-year warranty, another special request check was issued on February 9, 1998 for $210 of which $110 was to fix the same car’s alternator.

In addition, our review also included a third-party verification for one client assigned to the same case manager alleged of improprieties. Our review identified two checks totaling $130 in which we questioned the authenticity of the endorsements on the checks. In both instances, the checks were made out to the mother of a client who supposedly endorsed the checks. Our verification request, accompanied by copies of the two questionable checks, solicited a response to determine whether the checks were endorsed and received by the client's mother. Our verification disclosed that, in both instances, the recipient confirmed that the endorsements were not genuine. The result of our verification heightens the likelihood that client funds in the Representative Payee Program had been diverted and misused.

As a result of the center's inadequate internal control procedures, including the lack of effective supervision and monitoring control procedures as well as sufficient segregation of duties, client fund accounts were safeguarded to a lesser extent than required by state and federal regulations.

As a result of our review, the center's director has initiated corrective action by drafting new internal control policies and procedures regarding the administration of client funds. Many of the client fund issues identified during our review are addressed in the new policies and procedures and are awaiting Department of Mental Health approval.

Recommendation: The center should establish and implement internal control procedures that are necessary to ensure adequate and proper administration of the client funds and the Representative Payee Program. At a minimum, the following corrective actions should be implemented.

- An internal control structure should be designed and implemented for the client funds and Representative Payee Program that reasonably assures that all client fund account checks generated are supported by client signatures and case managers' approval. Particular emphasis should be given to the maintenance of sufficient supporting detail that documents the use of client funds. Case manager duties should be segregated to reduce the opportunity for concealed errors and irregularities and to promote the proper authorization of client fund transactions and activities.

- All client fund disbursements should be documented with the client's signature authorizing the disbursement that should be consistent with the client's budget and special request forms, (including proper sales receipts, invoices) and contain the client's signature as recognition of delivery and receipt of funds and goods. Special emphasis should be given to the processing and documenting of special request disbursements. In addition, client files should contain backup to support the purchase of prescription medication. Moreover, adequate safeguards over the access to and issuance of client checks should be established.

- Because the Representative Payee Program operations are contracted and administered by a third party, the center's internal control structure should provide for appropriate interaction between the center's management and the contractor to ensure adequate supervision and monitoring of program operations. This should include independent performance checks to determine the contractor's adherence to contract provisions and system control policies and procedures are in place and operating as prescribed by management. Any overriding or bypassing of established controls should be immediately followed up on and resolved. In addition, the center's internal control structure should provide for the close supervision of case managers by senior management regarding the use of client funds including authorizing special requests, providing guidance as to proper documentation, and conducting periodical site visits to clients confirming the receipt of goods.

- The center's written internal control policies and procedures should include a systematic process for the center staff and the third-party administrator to report noncompliance problems and any suspect or unusual client fund activity to senior management.

- Management should strictly prohibit the cashing of client checks by case managers at a local pharmacy. Clients are entitled to the full amount of their allowance and special request checks. Management must ensure that the case managers' fiduciary responsibilities to their clients are not compromised for convenience. To that end, the acceptance of a $1 fee each time a client check is cashed should be viewed as not in the best interest of the client and unacceptable.

- Management should communicate to employees its commitment for a strong internal control structure and convey a firm message and admonition that ethics cannot be compromised as applicable to the code of conduct for public employees as defined by the State Ethics Commission.

<u>Auditee's Response</u>:

The Solomon Mental Health Center, Department of Mental Health, accepts as written, the draft report from the review of the Representative Payee Program at the Center. As a result of the written recommendations as well as conversations . . . during the review process, the following corrective actions have been taken;

1) A Representative Payee Policy and Procedure was written and implemented in May 1999. The Policy and Procedure was reviewed by . . . the North East Area, Department of Mental Health, Fiscal Department, prior to implementation. The Policy was distributed with a directive cover letter to all case management, outpatient and Representative Payee staff from Tri-City Mental Health. The Policy was again revised in August 1999 after receipt of the report to specifically address the purchase of medications by case management staff and the requirement of a client signature for Special Requests. . . . The revised policy has been distributed to staff and is effective September 1, 1999.

2) A contract narrative has been drafted that more clearly defines the responsibilities of the contracted service provider and state case management/clinical staff. The contract will be amended to include this language in September 1999. Meetings have occurred in July 1999 with the contracted provider to discuss these requirements.

3) The practice of case managers/clinicians cashing checks at a local pharmacy will be stopped effective August 1999. . . .

Based on the recommendations in the report . . . the Solomon Mental Health Center Representative Payee Policy and Procedure provides the necessary controls for documentation and monitoring of the Representative Payee Program. The recommendations and actions taken have lead to the development of a process that protects the best interest of clients and staff.

Subsequent Event

During the exit conference held on August 17, 1999, the Center's Director informed us that after reviewing the appropriate reports and details, (both internal DMH reviews and the State Auditor's report), the case manager associated with several of the noted deficiencies was released from his employment at the Center. Additionally, the Director informed us that the matter was referred by DMH to the Attorney General's Office for possible further review and action.