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**INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES OF THE
DEPARTMENT OF MENTAL RETARDATION'S
METRO RESIDENTIAL SERVICES PROGRAM'S
CANTON RESIDENCE
OCTOBER 1, 2005 TO FEBRUARY 28, 2006**

**OFFICIAL AUDIT
REPORT
JANUARY 30, 2007**

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The Department of Mental Retardation (DMR), authorized under Chapter 19B of the General Laws, operates the Metro Residential Services (MRS) program. The program provides support to 30 homes at 21 locations throughout the Boston metro region. The MRS office is located within the Fernald Development Center in Waltham. The MRS office is responsible for the community based system of mental health services, which includes state operated residential services program for the citizens of the Metro Area, that includes Metropolitan Boston, Westboro, Framingham, Ashland, Canton, Wrentham, Norfolk, Needham, Wellesley, Waltham, Belmont, and Medfield. Individuals in the program are provided with a variety of support services in which direct support staff provide assistance in performing daily living routines. In addition, clients may receive services from nurses, psychologists, speech therapists, physical therapists, and occupational therapists.

Our audit was initiated as a result of a Chapter 647 report filed with the Office of the State Auditor (OSA) regarding a theft of funds at the Metro Residential Canton residence. The Fiscal Director of the DMR Metro Regional Office notified the OSA that a theft of client funds had occurred at the Metro Residential Services Program - Canton Residence. Chapter 647 of the Acts of 1989 requires the OSA to determine the internal control weakness that contributed to the theft; identify the internal control policies and procedures that need modifications; make recommendations to correct the condition found; and report the matter to appropriate management and law enforcement officials if necessary.

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INADEQUATE INTERNAL CONTROLS OVER CLIENT FUNDS RESULTED IN THE THEFT OF OVER \$9,158

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In accordance with Chapter 647 of the Acts of 1989, management at Metro Residential Services (MRS) reported to the OSA, the theft of resident funds at its Canton residence. In response to a routine audit request from MRS personnel to make available financial records pertaining to client funds on February 2, 2006, the House Manager of the Canton residence informed program management staff that he had taken amounts in excess of \$7,800 from at least two individuals who resided at the residence. The DMR audit disclosed inadequate internal controls that resulted in the theft of over \$9,158 from all six DMR clients participating in the MRS program. These thefts were initiated by the House Manager during the period October 1, 2005 through February 28, 2006. Our audit disclosed that MRS had inadequate internal controls over client funds due to the lack of segregation of duties within the residence. As a result of our review, MRS initiated corrective action by implementing new policies and procedures relative to the management of client funds. The House Manager was relieved of his duties, charges were filed, and he subsequently pleaded guilty in court to the theft. He was placed on probation and ordered to pay restitution to DMR in the amount of \$8,350.

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INTRODUCTION

Background

The Department of Mental Retardation (DMR), authorized under Chapter 19B of the General Laws, operates the Metro Residential Services (MRS) program. The program provides support to 30 homes at 21 locations throughout the Boston metro region. The homes include two person apartments, four person homes, and eight person homes. MRS has homes located in Metropolitan Boston, Westboro, Framingham, Ashland, Canton, Wrentham, Norfolk, Needham, Wellesley, Waltham, Belmont, and Medfield. The Canton residential program is located at 3 Old Randolph Road in Canton, Massachusetts. Individuals in the program are provided with a variety of support services in which direct support staff provide assistance in performing daily living routines. In addition, clients may receive services from nurses, psychologists, speech therapists, physical therapists, and occupational therapists.

Our audit was initiated as a result of a Chapter 647 report filed by MRS with the Office of the State Auditor (OSA). MRS reported that the House Manager admitted to have stolen funds in excess of \$7,800 from at least two individuals at the Canton residence. After being informed of this reported theft, the Department of Mental Retardation (DMR) assigned staff from its Office of Provider Qualification and Accountability to review the records and report on the theft. DMR's review determined the amount of funds involved to be over \$9,158 and involving all six residences. Their report also noted inadequate internal controls as a result of the lack of segregation of duties for handling client funds.

Chapter 647 of the acts of 1989 requires the OSA to determine the internal control weaknesses that contributed to or caused an unaccounted-for variance, loss, shortage, or theft of property; identify the internal control policies and procedures that need modification; make recommendations that address the correction of the condition found; and report the matter to appropriate management and law enforcement officials.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12 of the General Laws and Chapter 647 of the Acts of 1989, we conducted an examination of client fund deposits and transfers of the resident's funds from their savings accounts to their cash on hand for spending for the period October 1, 2005

through February 28, 2006. Our review was conducted in accordance with applicable generally accepted government auditing standards for performance audits issued by the Comptroller General of the United States

The purpose of our review was to determine the internal control weaknesses that contributed to the theft of client funds, which the House Manager had admitted to stealing.

To accomplish our objectives, we:

- Reviewed the adequacy of internal controls over client fund disbursements.
- Reviewed procedures established to determine if the residents had proper segregation of duties in place.
- Determined whether adequate safeguards were designed and implemented to restrict access to and control over client funds susceptible to misuse and easily convertible to cash or personal use.
- Determined whether supervisory and monitoring controls were present to maintain continuity in a controlled environment and reduce the risk to program operations.
- Reviewed the internal audit conducted by DMR which determined the amount of funds involved, and the internal control weaknesses which allowed the theft to occur.

At the conclusion of the audit, we reviewed our audit results with the MRS personnel and the Area Director. As noted in the Audit Results section of this report, the MRS lacked adequate internal controls over client fund administration. The deficiencies resulted from inadequate segregation of duties, and inadequate oversight procedures.

AUDIT RESULTS

INADEQUATE INTERNAL CONTROLS OVER CLIENT FUNDS RESULTED IN THE THEFT OF OVER \$9,158

On February 2, 2006 Department of Mental Retardation (DMR), Metro Residential Services (MRS) personnel requested that the House Manager at the Canton residence make available financial information for a routine audit. However, the House Manager informed MRS personnel that he had taken amounts in excess of \$7,800 from at least two individuals who resided at the residence. The theft was reported to DMR, and its Office of Provider Qualification and Accountability then went to the residence to review the records and report on the theft and the internal control environment in place at the residence. DMR's audit staff determined the amount of funds involved to be in excess of \$9,158 based upon preliminary estimates affecting potentially all six individuals' checking and/or savings accounts. Their report also noted inadequate internal control procedures due to the lack of segregation of duties

DMR reviewed client financial transactions for the period October 1, 2005 through February 2, 2006 and summarized the theft of funds as follows:

Client	Amount Missing	Description
Client A	\$412.37	\$407.04 withdrawn from savings account on 3 different dates \$5.33 missing from cash on Hand
Client B	\$916.91	\$575 withdrawn from savings account on 4 different dates \$341.91 missing from cash on hand
Client C	\$510.17	\$450 withdrawn from savings account on 2 different dates \$60.17 missing from cash on hand
Client D	\$226.60	\$75 withdrawn from savings account on 1 date \$151.60 missing from cash on hand
Client E	\$2,832.98	\$1,025.00 withdrawn from savings account on 4 different dates \$1,807.98 missing from cash on hand
Client F*	\$4,259.28	\$4,077.90 withdrawn from checking account via ATM card \$181.38 missing from cash on hand
Total	\$9,158.31	

* For Client F, DMR was unable to determine questionable transactions between the period of 5/19/2005 and 11/24/2005 because of lack of transaction records and supporting documentation on withdrawals and/or deposits from the Client's checking account. During our review of the client's activity, copies of the missing bank statements had been obtained and were available for review.

The DMR report concluded that inadequate internal accounting control procedures over client funds existed. The report noted that while MRS had existing written policies and procedures, they only provided instructions on how to record and document the Financial Transaction Record (FTR) for both Personal Needs and Savings/Checking Accounts, but did not address oversight responsibilities. The report also noted that there was a lack of segregation of duties with the responsibilities of the House Manager who had both access to client funds and the responsibility for accounting for cash transactions. They also noted that for five of the six individuals at the residence, client fund FTR's were only posted up through October 31, 2005 and that the questionable activity took place between November 1, 2005 and January 31, 2006. Their report noted that the sixth client's records (Client F) did not appear to have undergone a thorough review for a "period of time".

We selected and tested records for Clients E and F along with the internal control procedures in effect during our audit period (October 1, 2005 to February 28, 2006). For Client E, our audit disclosed that on four occasions a total of \$1,025 was withdrawn from the individual's savings account, but was never posted to the individual's cash on hand account. We also verified that Client E should have had cash of \$1,807.98 on hand in his "cash on hand" envelope on January 26, 2006.

For Client F, we determined that from the date that he was admitted to the Canton Residence, he had in his possession a private checking account that was not closed as required by DMR regulations upon his admission to the program. This checking account enabled the House Manager to obtain an Automatic Teller Machine (ATM) card linked to the checking account from which a number of cash withdrawals were made. The DMR review for this client covered the period March 7, 2005 thru January 26, 2006; however, financial records were missing for the period May 19, 2005 through November 24, 2005, which they did not review. They reported questionable activity of \$4,077.90 from the checking account, which they were able to review.

MRS had obtained photocopies of bank statements for the period of July 1, 2004 through January 31, 2006 by the time we conducted our audit and therefore, we expanded our review to cover the period that statements existed. We noted that the client moved into the residence on July 1, 2004 and that questionable activity began shortly after the July 1, 2004 date. Our audit identified that the potential misuse of funds totaled approximately \$11,851, as follows:

- **Debit card purchases:** 19 purchases totaling \$1,193.95 for such items as Boston Globe home delivery totaling \$209.08; Medlineland IL (purpose unknown) for \$112.95; Chamon Medical Services, Nashua, NH for \$247; 3 payments to K Mart and WalMart for \$599.40; and The Stock Company, Amazon for \$25.49.
- **Checks written:** 7 checks written for a total of \$866.41
- **ATM withdrawals:** 46 ATM withdrawals for a total of \$11,031.42**

** (5 transactions of cash for \$1,325 were traced to the client's FTR and cash on hand which were posted the same day as the ATM withdrawal)
- **Service charges:** 17 service charges and ATM Network Fees for a total of \$85.00

We also verified that the client should have had cash on hand of \$181.32 in the client's "cash on hand" envelope on January 26, 2006.

Our review disclosed that MRS had inadequate internal controls over Client Funds due to the lack of segregation of duties within the residence house. Request of Funds forms were not being used by residence staff, as required, and the House Manager was responsible for all phases of handling client funds. The House Manager was responsible for initiating the transaction, approving the transaction, recording the transaction, reconciling balances, handling cash and prepared reports.

Chapter 647, Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies contains the following requirements for internal controls procedures:

- All transactions and other significant events are to be promptly recorded, clearly documented and properly classified
- Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority.
- Key duties and responsibilities including (1) authorizing, approving, and recording transactions, (2) issuing and receiving assets, (3) making payments and (4), reviewing or auditing transactions, should be assigned systematically to a number of individuals to insure that effective checks and balances exist.
- Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. The duties of the supervisor in carrying out this responsibility shall include (1) clearly communicating the duties, responsibilities and accountabilities assigned to each staff member, (2) systematically reviewing each member's work to the extent necessary and (3), approving work at critical points to ensure that work flows as intended.

MRS's Management of Individual Funds Policy and Procedures states in part: "Records shall be kept of every transaction including date, amount disbursed, purpose for disbursing the funds, and identification of party to whom the funds were disbursed." Also, "Receipts are required for all purchases of \$25 or more." In addition, MRS internal control procedures required MRS personnel to review the use of client funds on a quarterly basis by going to the various residences and performing an audit of the client funds activity.

In addition, 115 CMR 3.08 states in part:

- Section 10: All funds received from the individual or on his or her behalf and all funds disbursed shall be accounted for and a permanent record made showing the amount of funds received, date received and source of funds. All funds disbursed shall be accounted for and a permanent record made of the person receiving funds, purpose of disbursement, amount of the disbursement, and date of disbursement.
- Section 8 (f): so long as the individual's dependent funds do not exceed \$250, all such funds may be maintained in a group bank account.
- Section (8)(d)(3): dependent funds shall be used only for purposes which directly benefit the individual. For example, no dependent funds shall be used for a gift to an employee.

Our audit disclosed that MRS personnel were not complying with their policies and procedures, the CMR's, and Chapter 647. In addition, we noted that the Financial Transaction Record (FTR) form that MRS was using is a one-page sheet which recorded the client's cash on hand and savings account balances, and recorded activity monthly for each client. This form was maintained in an envelope with the client's funds. The forms are not maintained in a secure area after each month and can be discarded or changed after the quarterly review by MRS.

During the course of our audit MRS revised their policies and procedures in order to improve internal controls over client funds. The revised procedure for "Financial Transaction Record" now requires the following:

- Use a new FTR for each month
- When funds are given to staff for individuals, complete and sign the "Request for Personal Funds" receipt, and place in the money pouch.

- Following the purchase, staff will deposit the change back into the account and enter a signed and numbered receipt. Receipts should be attached to the Request of Personal Funds slip.
- At the end of each day/week the person responsible for funds will attach all the month's receipts and Request for Personal Funds to the completed FTR and start a new monthly record.

MRS also established at a maximum balance of \$150 may be maintained for each individual in his/her House Account. Audits of the House Accounts are to be done on a regular basis, which is now monthly instead of quarterly. On a weekly basis, the Residential Supervisor will be responsible for reconciling bank balances and individual cash balances on the FTR.

The House Manager was relieved of his duties and was reported to the State Police and the District Attorney's Office, who filed charges against the individual. The individual pleaded guilty in court to the theft and was placed on probation and ordered to pay restitution to DMR in the amount of \$8,350.

Recommendation:

MRS should comply with 115 CMR 3.08, Section 10 that requires maintaining a permanent record of client funds. MRS personnel who complete the weekly/monthly review of client FTR's should prepare reports of their review in order to follow up on any prior weaknesses noted, secure the monthly FTR's as a permanent record along with supporting documentation, and ensure that large amounts are not accumulated in the individual clients cash on hand balances. Because of the size of the resident house staff, segregation of duties is difficult to accomplish, therefore oversight by MRS management as required by the new procedures must be complied with.

APPENDIX

Chapter 647, Acts of 1989, An Act Relative to Improving the
Internal Controls within State Agencies

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Chapter 647

THE COMMONWEALTH OF MASSACHUSETTS

In the Year One Thousand Nine Hundred and Eighty-nine

AN ACT RELATIVE TO IMPROVING THE INTERNAL CONTROLS WITHIN STATE AGENCIES.

Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:

Notwithstanding any general or special law to the contrary, the following internal control standards shall define the minimum level of quality acceptable for internal control systems in operation throughout the various state agencies and departments and shall constitute the criteria against which such internal control systems will be evaluated. Internal control systems for the various state agencies and departments of the commonwealth shall be developed in accordance with internal control guidelines established by the office of the comptroller.

(A) Internal control systems of the agency are to be clearly documented and readily available for examination. Objectives for each of these standards are to be identified or developed for each agency activity and are to be logical, applicable and complete. Documentation of the agency's internal control systems should include (1) internal control procedures, (2) internal control accountability systems and (3), identification of the operating cycles. Documentation of the agency's internal control systems should appear in management directives, administrative policy, and accounting policies, procedures and manuals.

(B) All transactions and other significant events are to be promptly recorded, clearly documented and properly classified. Documentation of a transaction or event should include the entire process or life cycle of the transaction or event, including (1) the initiation or authorization of the transaction or event, (2) all aspects of the transaction while in process and (3), the final classification in summary records.

(C) Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority. Authorizations should be clearly communicated to managers and employees and should

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include the specific conditions and terms under which authorizations are to be made.

(D) Key duties and responsibilities including (1) authorizing, approving, and recording transactions, (2) issuing and receiving assets, (3) making payments and (4), reviewing or auditing transactions, should be assigned systematically to a number of individuals to ensure that effective checks and balances exist.

(E) Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. The duties of the supervisor in carrying out this responsibility shall include (1) clearly communicating the duties, responsibilities and accountabilities assigned to each staff member, (2) systematically reviewing each member's work to the extent necessary and (3), approving work at critical points to ensure that work flows as intended.

(F) Access to resources and records is to be limited to authorized individuals as determined by the agency head. Restrictions on access to resources will depend upon the vulnerability of the resource and the perceived risk of loss, both of which shall be periodically assessed. The agency head shall be responsible for maintaining accountability for the custody and use of resources and shall assign qualified individuals for that purpose. Periodic comparison shall be made between the resources and the recorded accountability of the resources to reduce the risk of unauthorized use or loss and protect against waste and wrongful acts. The vulnerability and value of the agency resources shall determine the frequency of this comparison.

Within each agency there shall be an official, equivalent in title or rank to an assistant or deputy to the department head, whose responsibility, in addition to his regularly assigned duties, shall be to ensure that the agency has written documentation of its internal accounting and administrative control system on file. Said official shall, annually, or more often as conditions warrant, evaluate the effectiveness of the agency's internal control system and establish and implement changes necessary to ensure the continued integrity of the system. Said official shall in the performance of his duties ensure that: (1) the documentation of all internal control systems is readily available for examination by the comptroller, the secretary of administration and finance and the state auditor, (2) the results of audits and recommendations to improve departmental internal controls are promptly evaluated by the agency management, (3) timely and appropriate corrective actions are effected

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by the agency management in response to an audit and (4), all actions determined by the agency management as necessary to correct or otherwise resolve matters will be addressed by the agency in their budgetary request to the general court.

All unaccounted for variances, losses, shortages or thefts of funds or property shall be immediately reported to the state auditor's office, who shall review the matter to determine the amount involved which shall be reported to appropriate management and law enforcement officials. Said auditor shall also determine the internal control weaknesses that contributed to or caused the condition. Said auditor shall then make recommendations to the agency official overseeing the internal control system and other appropriate management officials. The recommendations of said auditor shall address the correction of the conditions found and the necessary internal control policies and procedures that must be modified. The agency oversight official and the appropriate management officials shall immediately implement policies and procedures necessary to prevent a recurrence of the problems identified.

House of Representatives, December 21, 1989.

Passed to be enacted, *George Luvaan*, Speaker.

In Senate, December 22, 1989.

Passed to be enacted, *William W. Budge*, President.

January 3, 1990.

Approved, *Richard H. Kiah* Governor.

