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**INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES OF THE
DEPARTMENT OF MENTAL RETARDATION'S
METRO RESIDENTIAL SERVICES PROGRAM'S
DORCHESTER RESIDENCE
OCTOBER 1, 2004 TO FEBRUARY 28, 2006**

**OFFICIAL AUDIT
REPORT
JANUARY 30, 2007**

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The Department of Mental Retardation (DMR), authorized under Chapter 19B and 123B of the Massachusetts General Laws, operates the Metro Residential Services (MRS) program, which provides support to 30 homes in 21 cities and towns throughout the Boston metropolitan region. The MRS office, which is located within the Fernald Developmental Center in Waltham, is responsible for a community-based system of mental health services, including state-operated residential services program for the citizens of the Boston, Westboro, Framingham, Ashland, Canton, Wrentham, Norfolk, Needham, Wellesley, Waltham, Belmont, and Medfield. Any client who lives in the geographical area served and meets the DMR criteria for priority clients may be eligible to receive continuing care services. 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.

Our audit was initiated as a result of a Chapter 647 report filed by MRS with the Office of the State Auditor (OSA) in which DMR notified the OSA that a loss of client financial records had occurred within its MRS program Dorchester residence. 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 funds or property; determine the amount of funds involved; identify the internal control policies and procedures that need modifications; make recommendations that address the correction of the condition found; and report the matter to appropriate management and law enforcement officials, if necessary.

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In accordance with Chapter 647 of the Acts of 1989, MRS management reported to the OSA a loss of resident financial records at its Dorchester residence. MRS reported that as of March 22, 2006, 15 months of records (December 2004 through February 2006) pertaining to client funds were missing. The House Manager claimed that the records were locked in a closet for the weekend, but were missing when he returned to his shift on the following Wednesday. Items missing included a checkbook for the group savings account, individual client Financial Transaction Records (FTR) reporting activity of receipts and disbursements for all eight clients housed at the residence, and checking account records for one of the clients. The House Manager was placed on administrative leave pending a hearing, which resulted in the individual being terminated.

Our review revealed that MRS did not have adequate internal controls in place over client fund activity. Specifically, one person, the House Manager, was responsible for initiating, approving, and recording all client fund transactions; handling cash; and preparing reports. In addition, client fund records were not properly secured, and neither DMR nor MRS had written guidelines addressing the security of client financial

records. Also, we found that MRS personnel did not prepare written quarterly reports on client fund activity, which could be useful in determining whether any unusual activity in the accounts had taken place. In response to our audit report, MRS indicated that it has improved its safeguarding of client funds, revised its policies and procedures, trained staff in the new policies and procedures, and that it now more thoroughly reviews consumer spending on a monthly basis, limits the amount of funds on hand for any consumer to \$150, keeps original financial records in the MRS office in Waltham, and maintains copies of these records at the individual MRS program residences.

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INTRODUCTION

Background

The Department of Mental Retardation (DMR), authorized under Chapter 19B and 123B of the Massachusetts General Laws, operates the Metro Residential Services (MRS) program, which provides support to 30 homes in 21 cities and towns throughout the Boston metropolitan region. The homes include two-person apartments, four-person homes, and eight-person homes located in metropolitan Boston, Westboro, Framingham, Ashland, Canton, Wrentham, Norfolk, Needham, Wellesley, Waltham, Belmont, and Medfield. Any client who lives in the geographical area served and meets the DMR criteria for priority clients (adults with serious or long-term mental illness) may be eligible to receive continuing care services. 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.

Our audit was initiated as a result of a Chapter 647 report filed by MRS with the Office of the State Auditor (OSA). On July 19, 2006, MRS reported to the OSA and DMR that client financial records for a 15-month period (December 2004 through February 2006) were missing from the MRS Dorchester residence, which is located at 76-78 Torrey Street, Boston.

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 funds or property; determine the amount of funds involved; identify the internal control policies and procedures that need modifications; make recommendations that address the correction of the condition found; and report the matter to appropriate management and law enforcement officials, if necessary.

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 a review of client fund records at the MRS Dorchester residence. Our review, which covered the period October 1, 2004 through February 28, 2006, 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 loss of client financial records. Also, because of the loss of records, we reviewed client bank statements for the period October 1, 2004 through February 28, 2006 to determine whether client funds may have been inappropriately accessed without detection as a result of the loss of records.

To accomplish our objectives, we:

- Reviewed the adequacy of internal controls over client fund disbursements.
- Reviewed established procedures to determine whether client fund activities were adequately segregated.
- Determined whether adequate safeguards were designed and implemented to restrict access to and control over client records and 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 client bank statement activity for the period of October 1, 2004 to February 28, 2006 in order to determine whether any unusual activity could be determined for the last few months before the records were lost.

At the conclusion of the audit, we reviewed our audit results with MRS personnel, including the Area Director. As noted in the Audit Results section of this report, our review revealed that MRS did not adequately safeguard client records and had inadequate internal controls over client funds.

AUDIT RESULTS

INTERNAL CONTROL IMPROVEMENTS NEEDED OVER THE SAFEGARDING OF CLIENT FINANCIAL RECORDS AND MANAGEMENT OVERSIGHT OF CLIENT FUNDS

The Department of Mental Retardation (DMR) Metro Residential Services (MRS) program reported a loss of client financial records from its Dorchester residence to the Office of the State Auditor (OSA) in accordance with Chapter 647 of the Acts of 1989. MRS reported that as of March 22, 2006, 15 months of records (December 2004 through February 2006) pertaining to client funds were missing. The residence House Manager stated that the records had been locked in a closet for the weekend, and that when he returned to his shift the following Wednesday, the records were missing. Items missing included a checkbook for the group savings account, individual client Financial Transaction Records (FTR) reporting activity of receipts and disbursements for all eight clients housed at the residence, and checking account records for one of the clients.

DMR and MRS officials informed us that the Program Director for the Dorchester residence had arrived to conduct a financial review of client records for the period December 2005 to February 2006, but had difficulty auditing the activity because receipts were missing and client FTRs were not properly maintained. She informed the House Manager that she would be back in a week to do her review. The following week, upon her return, the House Manager informed her that 15 months of records were missing from the locked closet. It was discovered that the checking account of one client was closed as of March 2006, and that a new account had been opened. The Housing Manager was relieved of his duties and terminated on May 20, 2006.

DMR provided us with copies of the individual savings passbooks and the checking account for the clients. An analysis of account activity was prepared for each client in an effort to determine whether any unusual activity occurred during the last few months, as follows:

Client	Beginning Period of Review	Balance	Deposits	Withdrawals	Interest	Balance February 28, 2006
Client A Savings	June 15, 2005	\$335.34	\$700.00	\$870.00	\$0.84	\$166.18
Client B Savings	March 31, 2005	0	\$1,560.00	\$1,510.00	\$0.75	\$50.75
Client C Savings	August 11, 2004	\$653.09	\$4,395.69	\$4,825.00	\$2.52	\$226.30
Client D Savings	November 16, 2004	\$306.02	\$4,018.83	\$3,670.00	\$3.29	\$658.14
Client E Savings	October 28, 2005	\$829.50	\$1,213.99	\$1,400.00	\$1.97	\$645.46
Client F Savings	December 14, 2005	\$635.98	\$428.48	\$450.00	\$0.65	\$615.11
Client G Savings	July 11, 2003	\$1,083.23	\$5,286.60	\$5,900.00	\$10.95	\$480.78
Client H Savings	June 19, 2004	\$1,088.77	\$9,179.77	\$9,150.00	\$13.53	\$1,132.07
Client H Checking	January 11, 2005	\$1,118.73	\$9,765.44	\$10,214.71	0	\$669.46

Based upon our review, we did not note any unusual activity for the period ended February 28, 2006. However, we did note that, for Client H's savings account, the usual monthly deposit of \$544 was not posted for September to either her savings or checking account. Moreover, although Client B usually received a monthly deposit of \$200, there were no deposits made to Client B's account for the months of April, July, and November 2005 and February 2006. MRS officials were unable to determine why the usual \$200 was not deposited for these months.

Our audit disclosed that MRS had inadequate internal controls over client funds with regard to authorization and segregation of duties. Specifically, contrary to sound business practices and Chapter 647 of the Acts of 1989, the House Manager was responsible for all phases of handling client funds, including initiating the transaction, approving the transaction, recording the transaction, reconciling balances, handling cash, and preparing reports. In addition, the financial records, when not being used, were stored in an unlocked closet rather than secured in a locked filing cabinet. Moreover, we found that neither DMR nor MRS had any written guidelines addressing the issue of safekeeping client financial records. We also noted that MRS personnel did not prepare written

quarterly reports with their review of client funds, which, if prepared, may had helped to determine any unusual client activity.

Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies, requires adequate segregation of duties and authorization, as follows:

- 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 ensure that effective checks and balances exist.

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. 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 client fund activity.

Moreover, 115 Code of Massachusetts Regulations (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.

During our audit, MRS revised its Policy on Financial Transactions, as follows:

- Staff must complete and sign a Request for Personal Funds and, following the purchase, deposit the unused funds back into the account and enter a signed and numbered receipt.
- At the end of each day/week, the person responsible for funds will attach all the month's receipts and Requests for Personal Funds to the completed FTR and start a new monthly record.
- A maximum balance of \$150 will be maintained for each individual.

- Audits of FTR are to be done on a regular basis. On a weekly basis, the Residential Supervisor will be responsible for reconciling bank balances and individual cash balances on the FTR.

Recommendation

MRS should comply with 115 CMR 3.08 by maintaining a permanent record of client funds. MRS personnel who complete the weekly/monthly review of client FTRs should prepare reports of their review in order to follow up on any prior weaknesses noted and secure the monthly FTRs as a permanent record along with supporting documentation. Moreover, MRS should establish procedures to ensure that records are properly safeguarded and secured when not in use. In addition, MRS should adequately segregate to the extent possible the duties of client fund management.

Auditee's Response

As a result of this audit, MRS has revised its policies and procedures and instituted a more thorough review of consumers' spending on a monthly basis.

After meeting with the State Auditors subsequent to their review, MRS did another audit of the individuals' expenditures and determined that, as did the State Auditors, no funds were misused.

Additionally, a new House Manager has been hired and the funds in the home are closely monitored while this staff person learns the new money management system; the Program Director for the home has been retrained on the new procedures relative to auditing the spending in the home.

As a result of this occurrence, Metro Residential Services has revised its policies in order to segregate duties and better safeguard and review consumers' funds and their spending.

Our new policy states that all transactions are to be recorded on the financial transaction records and that "Requests for Funds" requisitions must be filled out and authorized prior to the funds being withdrawn and spent.

The financial records are reviewed on a monthly basis with an eye towards the type of spending occurring and a verification that items purchased with a consumer's funds are in that consumer's possession. Additionally, the amount of cash on hand for any consumer cannot exceed \$150. A new financial record is begun for each month.

Original records and receipts are no longer being kept at the homes but kept at the MRS offices in Waltham. Copies of the financial records are sent to the homes. Upon receipt of the original documents at the MRS offices, a further review is completed.

Our staff have been trained in the new policies and procedures and a review of staff members' duties, responsibilities and performance is also done on a monthly basis.

We are continuing to review and evaluate our process for the reconciliation of consumers' funds in order to better safeguard and account for these dollars.

Finally, procedures are noted in the event that a theft or a misuse of funds is detected.

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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 Turman*, Speaker.

In Senate, December 22, 1989.

Passed to be enacted, *William H. Bergen*, President.

January 3, 1990.

Approved, *Richard Riordan*, Governor.