



Commonwealth of Massachusetts  
Office of the State Auditor  
Suzanne M. Bump

*Making government work better*

Official Audit Report – Issued March 3, 2016

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## Gandara Mental Health Center Inc.

For the period July 1, 2012 through June 30, 2014





Commonwealth of Massachusetts  
Office of the State Auditor  
Suzanne M. Bump

*Making government work better*

March 3, 2016

Ms. Kimberly Klimczuk, President of the Board of Directors  
Gandara Mental Health Center Inc.  
147 Norman Street  
West Springfield, MA 01089

Dear Ms. Klimczuk:

I am pleased to provide this performance audit of Gandara Mental Health Center Inc. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2012 through June 30, 2014. My audit staff discussed the contents of this report with management of your organization, whose comments are included in this report.

I would also like to express my appreciation to Gandara Mental Health Center Inc. for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "Suzanne M. Bump".

Suzanne M. Bump  
Auditor of the Commonwealth

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## LIST OF ABBREVIATIONS

CMR	Code of Massachusetts Regulations
DMH	Department of Mental Health
GMHC	Gandara Mental Health Center Inc.
HRI	Hispanic Resources Inc.
MLK	Martin Luther King Jr. Family Services Inc.
NPDM	Nonprofit Data Management LLC
OSA	Office of the State Auditor
OSD	Operational Services Division

## EXECUTIVE SUMMARY

Gandara Mental Health Center Inc. (GMHC), located in West Springfield, is a not-for-profit human-service agency providing various residential, mental-health, and substance-abuse-related services throughout Massachusetts. During our audit period, GMHC received the majority of its funding from contracts with state agencies.

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of certain activities of GMHC for the period July 1, 2012 through June 30, 2014. The purpose of our audit was to review certain aspects of GMHC's operations to determine whether it had established adequate internal controls and complied with applicable laws, regulations, and contractual requirements in the areas reviewed. This audit was conducted as part of OSA's ongoing efforts to audit human-service contract activity by state agencies and to promote accountability, transparency, and cost-effectiveness in state contracting.

Below is a summary of our findings and recommendations, with links to each page listed.

<b>Finding 1</b> <a href="#"><b>Page 7</b></a>	Inadequate controls resulted in a theft of more than \$45,000 of client funds by a GMHC employee. GMHC subsequently updated its policies, but more improvements could be made.
<b>Recommendations</b> <a href="#"><b>Page 8</b></a>	<ol style="list-style-type: none"><li>1. GMHC should take the measures necessary to ensure that the controls it has established under its new policy for the administration of client funds are adhered to.</li><li>2. GMHC should ensure that when it receives restitution for these funds, it uses the money to properly refund all the client accounts that were affected by the theft.</li></ol>
<b>Finding 2</b> <a href="#"><b>Page 9</b></a>	GMHC did not evaluate each client's ability to manage and spend his or her own funds as it was required to do. This means that GMHC is not ensuring that clients are receiving appropriate guidance and supervision on how to manage their money.
<b>Recommendation</b> <a href="#"><b>Page 10</b></a>	GMHC management should establish controls to ensure that Money Management Assessments are performed and Money Management Plans for each client are established.

<b>Finding 3</b> <b>Page 10</b>	GMHC paid \$286,600 to a company whose president was a member of GMHC's board of directors, in a contract that was not subjected to competitive bidding. GMHC could not substantiate that these costs complied with state requirements.
<b>Recommendations</b> <b>Page 12</b>	<ol style="list-style-type: none"> <li>1. GMHC should collaborate with the state's Operational Services Division (OSD) to determine whether any portion of the \$286,600 paid to this company constitutes nonreimbursable expenses that should be repaid to the Commonwealth.</li> <li>2. In the future, GMHC should comply with all of OSD's requirements for related-party transactions and the procurement of goods and services.</li> <li>3. GMHC should require its vendors to submit invoices that are sufficiently detailed to enable the GMHC employee reviewing them to readily determine what services were provided, on what date, and by whom, in order to properly assess the invoices' accuracy.</li> </ol>
<b>Finding 4</b> <b>Page 15</b>	GMHC did not properly reconcile its house funds, through which cash transactions of approximately \$400,000 were processed each year during our audit period. As a result, cash is exposed to risk of theft or misappropriation that GMHC officials would be unable to identify in a timely manner.
<b>Recommendation</b> <b>Page 16</b>	GMHC should establish the internal controls necessary to ensure that the house fund reconciliation process is performed correctly.
<b>Finding 5</b> <b>Page 16</b>	GMHC's chief executive officer authorized two loans, together totaling \$69,000, to another organization, but did not obtain the required board approval for the loans. GMHC incurred \$700 of interest related to these loans. GMHC also advanced \$26,449 of consultant costs to the other organization; \$4,560 of this amount was still owed to GMHC as of April 2015.
<b>Recommendations</b> <b>Page 17</b>	<ol style="list-style-type: none"> <li>1. GMHC should remit to the Commonwealth the \$700 in state funds that it used to pay for this nonreimbursable expense.</li> <li>2. In the future, GMHC should not use any state funds for purposes that are not related to program purposes for which the funds were provided.</li> <li>3. GMHC management should obtain prior board approval for all loans that it makes.</li> </ol>
<b>Finding 6</b> <b>Page 17</b>	GMHC's board did not review the chief executive officer's performance or formally vote to approve his compensation increases during fiscal years 2009 through 2015, which totaled \$51,500. As a result, there is inadequate assurance that the board affected proper oversight in this area and that the executive director's compensation was appropriate for his performance.
<b>Recommendation</b> <b>Page 18</b>	GMHC's board should ensure that it annually evaluates the performance of its executive director, establishes his or her compensation by a formal vote, and documents this activity in agency records.
<b>Finding 7</b> <b>Page 18</b>	GMHC did not maintain written leases for five of its properties. Therefore, GMHC does not have clearly established lease terms such as rental amounts and liabilities.
<b>Recommendation</b> <b>Page 19</b>	GMHC should maintain formally executed written leases for all of its leased property.

## OVERVIEW OF AUDITED ENTITY

Gandara Mental Health Center Inc. (GMHC), located in West Springfield, Massachusetts, was incorporated on June 1, 1977 under the provisions of Chapter 180 of the Massachusetts General Laws as a not-for-profit human-service agency. During our audit period, GMHC provided residential, mental-health, and substance-abuse-related services to children, adults, and families throughout Massachusetts, as detailed in Appendix A.

During fiscal years 2013 and 2014, GMHC received revenue from the following sources:

### Summary of Revenue

Revenue Source	Fiscal Year 2013	Fiscal Year 2014
<b>Department of Children and Families</b>	\$ 8,121,104	\$ 8,235,673
<b>Department of Public Health</b>	2,396,030	2,475,430
<b>Department of Developmental Services</b>	1,194,468	1,420,799
<b>Department of Mental Health</b>	—	261,611
<b>Department of Youth Services</b>	1,037,867	1,343,326
<b>Medicaid—Direct Payment</b>	279,765	303,509
<b>Medicaid—Massachusetts Behavioral Health Partnership Subcontract</b>	3,122,066	3,638,376
<b>Medicare</b>	58,403	58,031
<b>Massachusetts State Agency Non—Purchase of Service</b>	38,777	9,785
<b>Massachusetts Local Government</b>	336,149	331,693
<b>Other Massachusetts State Agency Purchase of Service</b>	95,175	41,746
<b>Purchase-of-Service Subcontract</b>	792,824	835,330
<b>Client Resources</b>	261,463	352,429
<b>Private Client Fees (excluding third parties)</b>	144,726	165,873
<b>Private Client Third Party / Other Offsets</b>	3,106,306	4,052,765
<b>Direct Federal Grants/Contracts</b>	376,402	228,718
<b>Private In-Kind*</b>	122,329	144,656
<b>Government In-Kind/Capital Budget</b>	151,470	199,726
<b>Contributions, Gifts, Legacies, Bequests</b>	19,942	19,208
<b>Investment Revenue</b>	1,028	680
<b>Other Revenue</b>	37,721	62,058
<b>Other Grants (excluding federal direct grants)</b>	4,277	116,766
<b>Released Net Asset Program</b>	6,358	11,782
<b>Total</b>	<b>\$ 21,704,650</b>	<b>\$ 24,309,970</b>

\* The Commonwealth's Operational Services Division, in its "UFR Audit & Preparation Manual," defines government in-kind/capital revenue as "the imputed revenue value of donated goods and personal services."

## AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of Gandara Mental Health Center Inc. (GMHC) for the period July 1, 2012 through June 30, 2014. In our review of client fund accounts, it was necessary for us to review records and obtain information on agency operations outside this audit period. Additionally, in examining the performance reviews of GMHC's executive director, the establishment of his compensation by the board, and the loans that GMHC made to another nonprofit organization, we examined the period July 2008 through April 2015.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Did GMHC properly administer its client fund accounts?	No; see Findings <u>1</u> and <u>2</u>
2. Did GMHC properly administer its house fund cash accounts?	No; see Finding <u>4</u>
3. DID GMHC comply with state regulations regarding the processing and payment of expenses?	No; see Findings <u>3</u> , <u>5</u> and <u>6</u>
4. Did GMHC's board of directors annually evaluate its chief executive officer and formally approve any pay increases?	No; see Finding <u>6</u>
5. Did GMHC comply with requirements regarding related-party transactions?	No; see Findings <u>3</u> and <u>7</u>
6. Did GMHC obtain its board of directors' approval before loaning agency funds?	No; see Finding <u>5</u>

To achieve our objectives, we gained an understanding of the internal controls we deemed significant to our audit objectives and evaluated the design and effectiveness of those controls, which were in the following areas:

- client funds
- house manager funds
- board governance
- related parties
- expenses

We identified deficiencies with internal controls regarding the above, which are described in the Detailed Audit Findings with Auditee's Response section of this report.

In addition, we performed the following procedures:

- We examined organizational charts and financial records, both electronic and hardcopy, including pertinent source documents and the Uniform Financial Statements and Independent Auditor's Reports that GMHC filed with the Commonwealth's Operational Services Division annually.
- We identified and reviewed applicable laws, regulations, agency policies, and procedures relevant to our audit objectives, as well as the Commonwealth's general contract terms and conditions for human- and social-service contracts, which applied to GMHC's state contracts.
- We reviewed all the minutes of the meetings of the GMHC board of directors that occurred during our audit period.
- We determined the reliability of data from GMHC's electronic accounting system by tracing certain electronic transactions to original source documents as well as performing other electronic tests of records and making relevant inquiries of the management personnel responsible for data reliability. We determined that the data from the system were sufficiently reliable for the purposes of our audit.
- We selected certain transactions for further examination by using a judgmental sample selection:
  - We selected 12 of 39 client files for review for our sample of Money Management Assessment Form and Money Management Plan documents. For our follow-up review, we reviewed updated versions of the same files from after our audit period. We also used these 12 files to determine whether client fund reconciliation procedures were followed.

- We selected 4 of the 39 locations where GMHC was maintaining house (petty cash) funds and reviewed 28 monthly reconciliations of these fund accounts. Since these samples were judgmentally selected, we did not project the sample results to the total population. We used judgmental samples because we believe that method was a better way to assess the relative significance of various items and to evaluate the relative risks that some of these items might not comply with existing regulations.
- We reviewed the two loans GMHC made to another organization.
- We reviewed a population of 22 real-estate leases and examined 5 that were from a related party.

## DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

### **1. Inadequate controls over client accounts resulted in a theft of more than \$45,000.**

During our audit period, Gandara Mental Health Center Inc. (GMHC) had not established adequate controls over its client accounts to ensure that the funds in the accounts were adequately protected from theft and/or misuse. Specifically, GMHC did not adequately segregate the duties of personnel involved in the administration of these accounts: it allowed one employee, its program director of Residential Services and Outreach for the Department of Mental Health (DMH), both to issue disbursements from these accounts and to reconcile them each month. Further, although GMHC's policies require a senior-management-level employee to review the monthly reconciliations of these accounts, during our audit period this monitoring activity was not performed until February 2014. This lack of controls allowed the program director to misappropriate more than \$45,000 from these accounts from August 2009 through January 2014. This issue was eventually identified by GMHC, which reported it to the appropriate state officials and to the City of Springfield Police Department. The employee in question was prosecuted, found guilty of the theft, and ordered to pay restitution.

### **Client Account Practices**

Clients in GMHC's residential programs typically receive income from various sources, primarily the US Social Security Administration, family members, or employment. For individuals who are unable to manage their own funds, a representative payee<sup>1</sup> can be designated to help the individual manage his or her money. The representative payee can be a family member, friend, or outside professional, or if no other alternative is available, GMHC's policies state that GMHC will be the representative payee. As of June 30, 2014, GMHC was maintaining 39 client accounts that had a total balance of \$50,668.

During fiscal year 2015 (beginning July 1, 2014), GMHC implemented a new policy for its client accounts to segregate the duties of staff members involved in the administration of these accounts. Although it was implemented outside our audit period, we reviewed this new policy and tested the GMHC staff's compliance with it and still found problems. These included a lack of evidence that the senior manager

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1. The Social Security Administration's "Guide for Organizational Representative Payees" defines a representative payee or fiduciary as "an individual or organization we appoint to receive and manage the **Social Security** or **SSI** benefits of another person."

was reviewing all account reconciliations and a lack of evidence that personnel were performing cash-count verification for each client fund account after every shift change as required by the new policy.

## Authoritative Guidance

Section III of the GMHC Accounting and Financial Policies and Procedures Manual that was in effect through June 2014 states,

*The Program Director will be responsible for reconciling all individuals' bank accounts monthly. . . . Individuals' accounts will be reconciled monthly when the bank statement is available. The reconciliation will be done and noted on the back of the bank statement, to include the initials of the staff member who completed the reconciliation and the date on which it occurred, and Senior Manager will review, initial and date the reconciled bank statement. . . .*

*The Financial Department will make periodic (at least annual) and sporadic reviews of all individual and house funds.*

GMHC amended its policy effective July 1, 2014 to provide better segregation of duties. The new policies (Appendix B) included bank reconciliations with signed and dated reviews, as well as accounting for, and documentation of, client cash.

## Reasons for Deficient Practices

GMHC management stated that it was an oversight not to ensure that the controls in this area provided for proper segregation of duties. Additionally, GMHC officials stated that the supervisory reviews of reconciliations did not occur because of the time constraints on senior managers, which did not allow them to perform this monitoring activity routinely.

## Recommendations

1. GMHC should take the measures necessary to ensure that the controls it has established under its new policy for the administration of client funds are adhered to.
2. GMHC should ensure that when it receives restitution for these funds, it uses the money to properly refund all the client accounts that were affected by the theft.

## Auditee's Response

*GMHC is adhering to the established policy with signature and oversight by a senior manager. Please note that all the [client accounts] involved have been made whole. Please note that also the employee that was responsible has been terminated and prosecuted. Center for Human Development, DMH and [the Disabled Persons Protection Commission] were notified as soon as we knew of this policy infraction.*

## Auditor's Reply

We believe the actions that GMHC says it has taken in terms of reporting and resolving the issue with the theft of funds were appropriate and consistent with our recommendations. However, as noted in our report, during our audit fieldwork we examined reconciliations to determine whether the new policy, including signature and oversight by the senior manager, was being adhered to. At that time, this oversight was not being performed. Based on GMHC's response, such oversight is now taking place. We urge GMHC to continue to ensure that the controls that it has established under its new policy for the administration of client funds are adhered to.

## **2. GMHC did not conduct required evaluations of its clients' ability to manage their money.**

GMHC did not complete a Money Management Assessment Form or develop a Money Management Plan for each of its residential clients as required by DMH regulations and GMHC policy. Only 3 of the 12 client files we reviewed contained Money Management Assessment Forms, and only 2 of 12 contained Money Management Plans. Without performing these required tasks, GMHC is not ensuring that its clients are receiving appropriate guidance and supervision on how to manage their money. This puts their money at risk of being mismanaged.

## Authoritative Guidance

According to Section 30.01 of Title 104 of the Code of Massachusetts Regulations (CMR),

*At least once during the first six months after admission, at least every 12 months thereafter, and upon the patient's request, the patient shall be evaluated to determine his or her ability to manage and spend his or her funds.*

GMHC policy states that these evaluations are to be documented on a form called a Money Management Assessment Form and that the purpose of the evaluations is to determine a client's ability to manage the funds in his or her account and to put together a Money Management Plan that will provide the level of staff support necessary to help him or her effectively manage the account.

## Reasons for Lack of Evaluations

GMHC's management stated that it was an oversight that its staff was not performing the required assessments and establishing Money Management Plans for these clients.

GMHC had not established adequate internal controls such as policies and procedures that provided for the periodic supervisory review of client files to ensure that these assessments were being conducted and the corresponding plans established.

## **Recommendation**

GMHC management should establish controls to ensure that Money Management Assessments are performed and Money Management Plans for each client are established.

## **Auditee's Response**

*Effective July of 2014 all of the DMH's residential and outreach [consumers] for which Gandara was [representative payee] have money management Assessment Forms and Money Management Plans completed on [an] annual basis.*

## **Auditor's Reply**

GMHC states in its response that it is now completing Money Management Assessment Forms and Money Management Plans annually as required. However, as stated above, GMHC needs to establish adequate controls over this activity to ensure that it is performed and documented in accordance with DMH regulations.

### **3. GMHC noncompetitively procured approximately \$286,600 of consultant services from a related-party board member and could not substantiate that this cost was allowable.**

In February 2011 and then annually thereafter throughout our audit period, GMHC entered into a contract with a company called Nonprofit Data Management LLC (NPDM) to oversee the recording of monthly financial activity in GMHC's financial records and provide reports of this activity to GMHC's senior management and board. In return for these services, NPDM was paid at the rate of \$65 per hour, for a total of approximately \$286,600 during our audit period. In September 2012, after this contract was awarded, the president of NPDM became a member of GMHC's board. At that point, this contractual relationship became a related-party transaction, subject to the regulations of the Commonwealth's Operational Services Division (OSD) for such transactions.

Although GMHC properly disclosed this related-party transaction in the Uniform Financial Statement and Independent Auditor's Reports it filed annually with OSD, it did not use a competitive process when procuring these services. Further, GMHC could not substantiate that the money paid to this consultant

represented reimbursable costs under its state contracts. Specifically, GMHC could not document that either (1) the costs of this transaction did not exceed the market value or the related party's costs for the goods or services it provides, whichever was lower, or (2) the related party's annual sales (of an item or service) to GMHC did not exceed 10% of its total annual sales and GMHC's board of directors approved the transaction by vote after disclosure of the related-party interest.

In addition, the invoices submitted by NPDM indicated the total number of hours of service performed for the month but did not provide an itemized breakdown of the services provided, who provided them, and on what date they occurred and therefore lacked sufficient detail to allow an independent party to verify that the amounts billed were appropriate.

## **Authoritative Guidance**

OSD regulations require entities contracting with the Commonwealth to use a competitive process when procuring goods and services. Specifically, 808 CMR 1.03(8) states,

*All procurements of furnishings, equipment and other goods and services by or on behalf of a Contractor shall be conducted in a manner to provide, to the maximum extent practical, open and free competition.*

The Financial Accounting Standards Board's Accounting Standards Codification 850-10-05-3 states that related parties include "management of the entity" and "other parties that can significantly influence [its] management or operating policies."

OSD regulation 808 CMR 1.05 establishes the conditions that must be met in order for a related-party transaction to be considered a reimbursable cost under state contracts:

*(8) Related Party Transaction Costs. Costs which are associated with a Related Party transaction are reimbursable only to the extent that the costs do not exceed the lower of either the market price or the Related Party's actual costs. Notwithstanding the above provision, Related Party transaction costs are reimbursable up to market price when the following conditions are satisfied:*

- (a) the transaction is for a good or service which the Related Party sells to the general public;*
- (b) the Related Party's transactions with the Contractor in the reporting year comprise less than 10% of the Related Party's annual sales of that good or service to the general public . . . and*

(c) *the Contractor has approved the transaction by vote of independent directors, or a committee of independent directors, following full disclosure of the Related Party's interests. OSD regulation 808 CMR 1.03(8) states that contractor services shall be procured "in a manner to provide, to the maximum extent practical, open and free competition."*

Finally, sufficiently detailed monthly billings are necessary to facilitate proper review by GMHC's staff and ensure the accuracy of these billings.

## Reasons for Noncompliance

GMHC policies do not require a board vote to approve contracts, but rather leave it up to the executive director to negotiate them. GMHC officials indicated that they were not aware of OSD's requirements for related-party transactions and felt that the \$65 per hour rate was a very reasonable rate to pay for these services.

## Recommendations

1. GMHC should collaborate with OSD to determine whether any portion of the \$286,600 paid to NPDM constitutes nonreimbursable expenses that should be repaid to the Commonwealth.
2. In the future, GMHC should comply with all of OSD's requirements for related-party transactions and the procurement of goods and services.
3. GMHC should require its vendors to submit invoices that are sufficiently detailed to enable the GMHC employee reviewing them to readily determine what services were provided, on what date, and by whom, in order to properly assess the invoices' accuracy.

## Auditee's Response

*Nonprofit Data Management LLC (NPDM) provides accounting, financial system management / database hosting, consulting, and temporary services to non-profit agencies. Their staff averages almost 10 years of non-profit accounting experience and over 20 years of financial experience.*

*Gandara after an in-depth analysis/research and due diligence on investigating the company including contacting Board Members of other non-profit agencies that have utilized the services of NPDM, asked NPDM to review its Board Reporting Process and its Balance Sheet Scheduling process in March of 2011. After experiencing the work provided by NPDM, Gandara asked if NPDM could provide some mentoring to its current CFO from April through November of 2011. Costs incurred for these services totaled less than \$4,500. At this time, no member of NPDM was a member of the Gandara Board.*

*Starting in late November of 2011, an unusual set of circumstances occurred at Gandara that had the potential to seriously impact the Agency to perform its financial reporting and billing requirements.*

*The CFO of Gandara had to be dismissed immediately for violating company policy. Because the Agency was already down a fiscal staff person, the emergency situation required Gandara to act quickly to fill this important gap. At that time due to "an emergency situation" the Gandara Board and Executive Director, based on our policies, "waived" the normal procurement process and asked NPDM to provide CFO and Senior Staff Accounting Support on a temporary basis. Although the service was not procured, Gandara's Accounting & Financial Policies and Procedures Manual under the purchasing section provide the procurement process to be waived for the protection of the Organization. GMHC needed to ensure that individuals familiar with the process of submitting and filing for Third Party was properly submitted to safeguard and maximize the uninterrupted receipt of reimbursement due to the Agency. This situation was aggravated due to the implementation of a new Electronic Medical Record system as well as new accounting software that were new to everyone. Please note that, in addition to engaging NPDM, the Agency immediately advertised for the positions of CFO and Staff Accountant.*

*After a period of approximately 5 months of reviewing, screening, and interviewing candidates, job offers were made to a new CFO and a Staff Accountant who began work in May/June of 2012 while NPDM transitioned out of the Agency providing training to both individuals. NPDM expected to be completely out of the Agency by August when the CFO suddenly gave his two week notice because he was leaving for a position closer to his home. This sudden notice put Gandara back in an emergency mode because it had just implemented a new General Ledger System effective, 7/1/12, had made extensive changes to its payroll system and processing, and was about to have its external auditors begin their annual audit. In addition, prior to the CFO giving his notice the Agency had asked an employee to become a Board Member of Gandara and the individual accepted.*

*Two to three NPDM staff members not on a full time basis provided support while the advertising process for a CFO, a staff accountant and an [accounts payable, or A/P] clerk began. At this time, NPDM provided CFO, financial system management, training, senior staff accounting and even A/P support. All timelines were met for the generation of internal and external reports including the Audit and the new General System was fully implemented. NPDM provided all of the services mentioned above through February of 2013 when a new CFO, staff accountant, (who started in January) and an A/P clerk (who started in December) were hired. The process for the new CFO took longer than expected because job offers were made to two candidates in December who initially accepted [but] at the last minute decided to stay in their old positions at the non-profit agencies where they were employed.*

*Again NPDM services started the "wind down" as the transition to internal staff occurred. The new CFO asked if an Accounting Manager from NPDM could continue working at Gandara on a "full time" basis for a month to assist in some program billing analysis and research. This service became extended when the Senior Accountant on staff was dismissed for poor performance.*

*In August of 2013, a new emergency situation occurred when the CFO was dismissed abruptly for insubordination. This resulted in NPDM being asked to provide CFO, Financial System Management support (a new Electronic Medical Records and Billing System had just been implemented and "start-up" problems needed to be immediately addressed), Comptroller, and Senior Staff Accounting support to ensure that the new Electronic Medical System was fully*

*implemented, the FY 14 Budget was developed and then presented to the Board for approval, the annual audit was supported, and internal and external reporting and billing continued. While this support was occurring, advertising took place to fill the CFO position, the Senior Accounting position, and a 3rd Party Billing Director's position in fiscal.*

*The Senior Accounting position was filled in December of 2013 but 2 people (an Accounting Manager and an "Outsourced" CFO) continued to provide support. Although many CFO candidates were interviewed, a candidate with all of the necessary "skill set" was never found. In September of 2014, the Accounting Manager from NPDM was offered the Comptroller's position and the individual accepted. No fee was paid to NPDM for hiring this individual.*

*NPDM support now is limited to mentoring of the Comptroller and supporting the 3rd Party System and Billing Processes. Similar to 2013, all internal and external reporting requirements were met and the new Electronic Medical Records System has been fully implemented and all of the necessary system controls are now in place to ensure the accuracy of this subsidiary ledger of the Agency's General Ledger System.*

*Reimbursement is inappropriate because the amount paid is comparable to what it would have paid had the consultant services been procured through competitive bidding. Comparing the cost of a salaried full time CFO and Senior Accountant of \$205,000 per Year to the cost of NPDM resulted in a savings of \$123,400 for the two years.*

## **Auditor's Reply**

We acknowledge that under the circumstances GMHC describes in its response, there may have been a need—at least in the near term—for the agency to procure these accounting-related services rather than trying to hire permanent staff members. However, as noted above, OSD regulations require human-service contractors to use a competitive bidding process when procuring such services. The agency does not have the authority to waive this requirement through its own policies. Although it may have been prudent for GMHC to address what it perceived to be an emergency situation during fiscal year 2012 by hiring NPDM without competition, we believe that in subsequent years GMHC should have made an effort to open use an open competitive-bidding process to see if it could obtain these services at a lower cost, rather than annually renewing NPDM's contract. GMHC did not provide us with any documentation to support its assertion that the arrangement with NPDM was comparable in price to what it would have paid had a competitive procurement taken place.

Aside from the competitive-procurement issue, as stated in our report, in order for these related-party costs to be reimbursable under GMHC's state contracts, the transaction would have to meet the requirements of the applicable OSD regulations. However, GMHC could not document that either (1) the costs of this transaction did not exceed the market value or the related party's costs for the goods or

services it provides, whichever was lower, or (2) the related party's annual sales to GMHC did not exceed 10% of its total annual sales and GMHC's board of directors approved the transaction by vote after disclosure of the related-party interest.

Finally, since GMHC does not comment on this issue in its response, we again recommend that GMHC require its vendors to submit invoices that are sufficiently detailed to enable the GMHC employee reviewing them to readily determine what services were provided, on what date, and by whom in order to properly assess the invoices' accuracy.

#### **4. GMHC had inadequate controls over house funds.**

During the audit period, GMHC did not have adequate controls over its house funds. Specifically, although GMHC had a policy that required program employees to reconcile the amount of money in their house funds to amounts being requested to replenish them, management did not monitor this activity to ensure that it was being performed correctly. Of the 28 reconciliations in 4 house funds that we reviewed, 24 (86%) did not reconcile, and the programs in question did not identify any reasons for these variances. Our review of GMHC's reconciliations indicated that programs received between \$8 and \$1,254 more than they actually needed to bring their funds up to their allotted balances. As a result, cash is exposed to risk of theft or misappropriation that GMHC officials would be unable to identify in a timely manner.

#### **House Fund Practices**

Each of GMHC's 34 residential locations maintains a petty-cash account, known as a house fund, that is intended to be used for incidental purchases of items needed at the residence. Twice a month, the house manager is supposed to perform a reconciliation of the expenditures from this fund to the fund balance and then submit a request to GMHC's accounting department for the amount of money that is needed to bring the fund balance up to the amount established by GMHC. According to agency records, during our audit period, purchases of approximately \$400,000 were processed annually through these 34 accounts.

#### **Authoritative Guidance**

Part 3.1.26 of GMHC's Accounting and Financial Policies and Procedures Manual requires personnel to reconcile house funds to ensure that the correct amount is being requested.

## **Reasons for Lack of Reconciliations**

GMHC officials were unable to explain why the variances occurred. They did note that they would review and revise procedures as necessary and conduct employee training on the topic to ensure that funds were reconciled properly in the future.

## **Recommendation**

GMHC should establish the internal controls necessary to ensure that the house fund reconciliation process is performed correctly.

## **Auditee's Response**

*New Controls were defined and implemented in 2015 and are currently being followed.*

### **5. Unallowable interest expenses totaled \$700.**

During fiscal year 2014, GMHC was exploring the possibility of acquiring another nonprofit organization, Martin Luther King Jr. Family Services Inc. (MLK), that was struggling financially. The two organizations signed a Letter of Intent to merge, to give themselves time to further investigate the implications of an acquisition. After the Letter of Intent was signed, GMHC's executive director borrowed money that he used to provide two loans, together totaling \$69,000, to MLK. However, he did not obtain board approval for these loans. The merger between the two organizations never took place, and the loans were repaid by MLK on January 17, 2014 and June 13, 2014, respectively. However, while the loans were outstanding, GMHC incurred \$700 of interest that it charged to its state contracts but did not require MLK to repay. Because this interest expense was not related to the activities of GMHC's state-funded program, it is not reimbursable.

In addition to the loans, GMHC paid \$26,449 of consultant costs incurred by MLK; \$4,560 of this amount was still owed to GMHC as of April 2015.

## **Authoritative Guidance**

According to 808 CMR 1.05(12), expenses that are not directly related to a contractor's social-service program purposes are nonreimbursable.

Additionally, GMHC's bylaws state, "No loans shall be contracted on behalf of the Corporation and no evidences of indebtedness shall be issued in its name, unless and except as authorized by the Board of Directors."

## Reasons for Issue

GMHC's executive director told us that he believed that signing the letter of intent to merge with MLK gave him the authority to grant loans and advance funds to MLK without board approval.

## Recommendations

1. GMHC should remit to the Commonwealth the \$700 in state funds that it used to pay for this nonreimbursable expense.
2. In the future, GMHC should not use any state funds for purposes that are not related to program purposes for which the funds were provided.
3. GMHC management should obtain prior board approval for all loans that it makes.

## Auditee's Response

*Board approval was not required to make the loan, no merger occurred.*

## Auditor's Reply

As noted in this report, GMHC's bylaws require board approval for all loans. The fact that the merger never occurred is not relevant to the necessity of adhering to this policy. Therefore, we again recommend that GMHC implement all of our recommendations, including reimbursing the Commonwealth the \$700 in nonreimbursable interest expenses that it charged to the Commonwealth as a result of these loans.

## **6. GMHC's board did not annually evaluate its executive director's performance or vote to approve \$51,500 in salary and a bonus for him.**

GMHC's board did not annually review the performance of its executive director, and there was no documentation that the board had formally approved the increases in compensation that he received during fiscal years 2009 through 2015, which totaled \$51,500 (\$41,500 of salary increases and a \$10,000 bonus). As a result, there is inadequate assurance that the board affected proper oversight in this area by determining that the executive director adequately met all of his job-related responsibilities and that his compensation level during this period was appropriate for his performance.

## Authoritative Guidance

According to the Commonwealth Terms and Conditions for Human and Social Services, the board of directors must annually review the performance of the chief executive and approve his or her salary by a formal vote.

## Reasons for Noncompliance

A GMHC board member told us that the board had evaluated the executive director's performance and voted to approve the compensation increases in executive sessions, but records of these sessions were not maintained.

## Recommendation

GMHC's board should ensure that it annually evaluates the performance of its executive director, establishes his or her compensation by a formal vote, and documents this activity in agency records.

## Auditee's Response

*The Board did conduct formal evaluations of the executive director's performance on an annual basis and all decisions with respect to the executive director's pay occurred only after the annual review process was complete. The annual review process included input from all board members, as well as GMHC's senior management team, all of whom were invited to complete an evaluation form for the executive director. The Board evaluated and discussed the collective evaluations to prepare a final evaluation report. Discussion of the executive director's performance and compensation took place in the Board's executive sessions, as is customary and appropriate for discussions of that nature.*

## Auditor's Reply

We were not provided with any documentation that an evaluation took place or that the board formally voted to approve the executive director's salary as required. In the future, the board should make sure that it conducts this evaluation annually and that there is sufficient documentation to substantiate that the agency has fully complied with this contractual requirement.

## **7. GMHC did not have lease agreements for five properties it was leasing from a related party.**

During our audit period, GMHC operated programs on five properties that were owned by a related party, Hispanic Resources Inc. (HRI), to which it paid a total of \$278,444 for the use of the properties. However, neither GMHC nor HRI could substantiate that these two parties had entered into formal

written leases for these properties. Without a formal written lease, GMHC did not have a mechanism that clearly established key elements such as the rental amount; the term of occupancy; the person responsible for repairs, utilities, and upkeep; and potential liability for repairs, maintenance, or injuries.

## **Authoritative Guidance**

Section 7 of the Commonwealth Terms and Conditions for Human and Social Services requires records to be retained as follows:

*The Contractor shall maintain records, books, files, and other data as required by 808 CMR 1.00 and as specified in a Contract and in such detail as shall properly substantiate claims for payment under a Contract, for a minimum retention period of seven (7) years beginning on the first day after the final payment under a Contract, or such longer period as necessary for the resolution of any litigation, claim, negotiation, audit or other inquiry involving a Contract.*

Additionally, 808 CMR 1.04(1) states,

*The Contractor and its Subcontractors shall keep on file all data necessary to satisfy applicable reporting requirements of the Commonwealth . . . and financial books, supporting documents, statistical records, and all other records which reflect revenues associated with and costs incurred in or allocated to any Program of services rendered under the Contract.*

And GMHC's Accounting and Financial Policies and Procedures Manual states that "the signed contract is authorization for payment" for certain types of expenses. It specifically names leases as one such expense.

## **Reasons for Lack of Agreements**

GMHC officials stated that the agency had entered into formal written leases for these properties in 2007, but that copies of the leases could not be located.

## **Recommendation**

GMHC should maintain formally executed written leases for all of its leased property.

## **Auditee's Response**

*Gandara allowed the leases to roll over and continued as written, rather than to re-write the terms of the lease to keep them current. Gandara did so out [of] convenience, Gandara now realizes the need to ensure that leases are re-written, and re-authorized by the Board, when their terms expire and Gandara will do so in the future.*

## APPENDIX A

### Gandara Mental Health Center Inc. Program Descriptions<sup>2</sup>

#### Outpatient Mental Health Services

##### Clinical Support Services

*Clinical Support Services for children and adults of all ages and couples, and families. Traditional outpatient services including psychosocial assessment, individual, group, couples therapy, and family therapy, psychiatric evaluation, medication management, and psychological evaluations. Services are delivered with a frequency and intensity deemed appropriate for the individual, after taking numerous factors into consideration. Family therapy is strength based and focused on developing parent advocacy and skills in managing children's issues.*

##### Community Support Program

*The Community Support Program (CSP) provides an array of services designed to support access and utilization of primary medical and mental health treatment services. Supports are provided through staff dedicated to ensuring that clients can access and utilize available services for the betterment of their mental and physical health. CSP provides essential services to clients with a long-standing history of a psychiatric or substance abuse disorder, and to clients who are at increased medical risk.*

#### Outpatient Addiction Recovery Services

##### Outpatient Substance Abuse

*Gandara has Bilingual, bicultural substance abuse treatment including individual psychotherapy with the frequency depending on the severity of the individual; and weekly, 1-hour, substance abuse group therapy to all genders. **Eligibility:** 18 years or older, demonstrate a history of substance abuse/dependence, willing to complete a diagnostic assessment, adhere to the agreed upon treatment plan and supply health insurance information, or agree to pay for services.*

##### Structured Outpatient Addiction Program

*This is a time limited, multi-modal treatment for individuals who require structured setting in which to achieve abstinence and sustained recovery from drug/alcohol abuse. Average length is three weeks, the program operates five days/week for 3.5 hrs./day. **Participants** must be 18 years or older, demonstrate a history of substance abuse/dependence, willing to complete a diagnostic assessment, adhere to the agreed*

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2. The text of this appendix is excerpted from a "Service Directory" that Gandara Mental Health Center Inc. provided to us.

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*upon treatment plan and supply health insurance information, or agree to pay for services.*

### **Driver Alcohol Education**

*Services provided for individuals experiencing substance dependency/abuse who are 18 years of age or older and referred by a local court. Program consists of an intake, evaluation, 2-hour group sessions for a period of 16 weeks, and an exit interview.*

### **Gambling Disorders—Outpatient Treatment**

*This is a traditional individuals, group, family counseling and case consultation for problem gamblers. Treatment includes assessment, treatment planning, specialized psycho-educational groups, family groups, that helps participants and supports understand the behavior in the context of cross-addiction.*

### **Domestic Violence—Certified Batterers Program for Men**

*This is a two-hour biweekly group sessions for 40 weeks for men with a history of domestic or partner violence. Interventions focus on stopping the violence and help the batterer to identify, confront, challenge and change controlling and abusive behavior towards their partner and children. Six groups weekly are available in Springfield and Holyoke, during the evening and on Saturdays.*

### **Anger Management Services**

*Anger Management Services consist of bilingual individual or group therapy. Group sessions consist of 16 - 1 hour, weekly sessions. Additional individual sessions are available depending on the severity of the participant's condition and at the discretion of the clinician.*

### **Sex Offender Treatment**

*This is an on-going treatment for males with a history of sex offending. It consists of individual or group and individual treatment. Availability of individual sessions depends on the severity of the participant's clinical status and at the discretion of the clinician.*

### **Children and Family Community Outreach Services**

### **Children's Behavioral Health Initiative—Specialized Community Service Agency**

*Gandara Center specializes in providing a variety of bilingual, bicultural services to youth with serious emotional disturbances (SED) and their families using a wraparound approach.*

## Intensive Care Coordination (ICC)

*ICC provides a single point of accountability to ensure that medically necessary services are accessed, coordinated, and delivered in a strength-based, individualized, family/youth-driven, and ethnically, culturally, and linguistically relevant manner. The ICC coordinator facilitates collaborative care planning and service coordination for youth with SED by promoting a collaborative relationship among the youth, his/her family and involved child-serving systems, through a Care Planning Team (CPT). The team is comprised of both formal and natural family support persons who assist the family in identifying goals and developing an Individual Care Plan (ICP) and risk management/safety plan.*

## Family Partner—Support and Training

*A Family Partner develops a structured, one-to-one, strength-based relationship with the parent/caregiver of a youth with SED, in a youth's residence (home, foster or therapeutic foster homes and other community settings). The goal is to resolve or ameliorate the youth's emotional and behavioral needs by improving the parent/caregiver capacity to parent the youth so as to improve the youth's functioning as identified in a youth's treatment plan.*

## Youth Therapeutic Mentor

**Youth Therapeutic Mentor**—develops a structured, one-to-one, strength-based supportive relationship with a youth for the purpose of addressing daily living, social, and communication needs. Mentors provide support at the youth's residence or other community setting (school, child care centers, respite, or a culturally/linguistically appropriate community setting). Services include: training, coaching and supporting the youth in age-appropriate behaviors, interpersonal communication, problem-solving and conflict resolution, and relating appropriately to other youth and adults, in recreational and social activities, according to a behavioral health treatment plan developed by provider in concert with the family, and youth or Individual Care Plan (ICP) for youth with ICC.

## In-Home Behavioral Services

*Services are delivered by one or more professional and paraprofessional staff who offers a combination of medically necessary **Behavior Management Therapy** and **Behavior Management Monitoring**. This program is employed when less intensive behavioral interventions do not reduce or eliminate a youth's problem behavior(s) or increase/maintain desirable behavior(s).*

## Behavior Management Therapy

*This service is designed to treat challenging behaviors that interfere with the youth's successful functioning. Services include a behavioral assessment (including observing the youth's behavior, antecedents of behaviors, and identification of motivators),*

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*development of a highly specific behavior treatment plan; supervision and coordination of interventions; and training other interveners to address specific behavioral objectives or performance goals.*

## **Behavior Management Monitoring**

*This service includes implementation of the behavior treatment plan, monitoring the youth's behavior, reinforcing implementation of the treatment plan by the parent(s)/guardian(s)/caregiver(s), and reporting to the behavior management therapist on implementation of the treatment plan and progress toward behavioral objectives or performance goals.*

## **In-Home Therapy Services**

*In-Home Therapy Services—offers a structured, consistent, strength-based therapeutic program between a licensed clinician, the youth and family designed to increase the family's ability to provide effective support [of] the healthy functioning of a youth within the family, home, and community. An In-Home Therapy team (practitioner(s), family, and youth), develops a treatment plan and works with the family to implement focused interventions and behavioral techniques to: enhance problem-solving, limit-setting, risk management/safety planning, communication, build skills to strengthen the family, advance therapeutic goals, or improve ineffective patterns of interaction; identify and utilize community resources; develop and maintain natural supports for the youth and parent/caregiver(s) in order to promote sustainability of treatment gains.*

## **Adolescent and Family Services Residential**

### **Short Term Assessment Rapid Reunification (STARR)**

*A 14-45 day, co-ed short-term assessment and rapid reunification residential program. Services include: comprehensive assessment, medication management, individual and family therapy, anger management and life skills groups, educational support, sensory therapy, transportation, recreation and comprehensive case management using a trauma informed approach.*

### **Behavioral Treatment Residences (BTR)**

*Gandara provides long-term support (9–12 months), stabilization, and assessment services for teens with problems with Attention Deficit Disorder (ADD), sexual molestation, fire setting, learning disorders, and other social, psychological, and behavioral problems. Staff provide a professional trauma-informed residential environment that is supportive, caring and promotes healing and growth.*

## **After School**

### **Gandara After School Program**

*After School Program for up to 15 youth. Program provides transportation from schools. Educational support services with a licensed teacher, recreational services and various activities such as exercise classes, bucket drumming programs and arts and crafts.*

## **Foster Care**

### **Intensive Foster Care**

*Homes located throughout Western MA with a varied length of stay and no cap on referrals. Program provides intensive care management, transportation and recreational opportunities for youth, 24 hour on-call support.*

## **Addiction Services**

### **Gandara Residential Services for Women (GRSW)**

*GRSW is a women's recovery program that focuses on behavior modification techniques and modalities with positive reinforcement. . . . GRSW uses the Matrix Model format for group process and the model parallels the principle of DiClemente and Prochaska's "Stage of Change." Addiction is viewed as an effort to self medicate and staff adhere to the addiction disease model. Staff establishes a working alliance with participants to motivate and assist them in creating positive behavioral changes and commit to help learning individual's skills that support a life of sobriety.*

### **Hairston House**

*Hairston House is a 17-person, Social Model recovery program for males that focuses individual responsibility and peer support as the basis for substance abuse recovery and uses behavior modification techniques and modalities with positive reinforcement.*

### **Gandara Addiction Recovery Program (GARP)**

*A 37-bed facility provides long-term residential recovery treatment to Spanish speaking men with a dependency on alcohol and drugs.*

## **Health and Wellness**

### **New Wave / Nueva Onda**

*The program serves 13–24 year olds with outpatient substance abuse treatment for persons with co-occurring disorder. Outreach team provides rapid HIV testing and referrals to confirmatory testing.*

## **Supportive Housing**

### **Serenity**

*Serenity is a 12–18 month transitional supportive case management for 12 women in recovery.*

### **Miracle House**

*It is a permanent housing and supportive case management for 8 men in recovery.*

### **NIA**

*Miracle House is permanent housing with supportive case management for 15 families (including children) in recovery.*

### **Community Housing Program (CHP)**

*CHP is a permanent supportive housing with case management for 10 families (including children) in recovery. This is permanent housing, with affordable housing sites located in Holyoke's Jarvis Heights or Leeds, MA.*

### **Maple House Sober Housing**

*This is a permanent supportive housing with case management for 6 individuals in recovery from substance abuse. Shared housing in a 2-floor duplex, with 3-individual bedrooms and shared common area, in close proximity to services, transportation and recovery supports.*

## **Tobacco**

### **Tobacco Free Community Partnership (TFCP)**

*TFCP supports the smoke free efforts of Springfield and surrounding communities both in the home and in the workplace. The TFCP increases public knowledge of smoking as the leading preventable cause of death in MA, maintain Mass Health utilization rates, working to eliminate the sale of over the counter tobacco to youth, promote the Ex-Smokers Hall of Fame project and supporting smoke free housing efforts in Springfield and the surrounding areas. The TFCP provides smoking related materials and education to professional health care providers about the negative effects of second hand smoke and fosters relationships with the community and other human service agencies to ensure support for those who wish to live smoke free lives.*

## **Substance Abuse Prevention**

### **STOP ACCESS Springfield**

*STOP ACCESS works to reduce underage drinking in the Mason Square and South End communities. Youth and adults work side-by-side to comprise or create positive vital communities and implement city wide strategies that highlight underage drinking and move it to a priority status in Springfield. Current working groups include a retailers group, youth advisory board, law enforcement, trauma team and a multi-disciplinary prevention team focused on data. The Coalition works with the Springfield School Department, neighborhood councils, community based organizations and elected officials.*

## **Outreach / Case Management**

### **Corrections to Community (CTC)**

*CTC provides intensive, transitional case management services to incarcerated men and women in from Western MA Houses of Correction or state correctional facilities.*

### **Project Health**

*Social Case Management for HIV Positive Clients in the Springfield area. Staff is fluent in Spanish and their strength is in working with Spanish speaking clients, although services are open to any clients. Clients of any age may receive services. Case management assists clients to access medical, mental health and substance abuse services and to maintain a positive lifestyle despite being HIV+ or having AIDS.*

### **PREP Provides Teen Pregnancy Prevention Education**

*This program will target groups of teens more likely to be at risk for teen pregnancy, providing educational services. . . . The goal of this program is to decrease the number of teens becoming pregnant.*

## **Mental Health and Developmental Disability**

### **DMH Residential Services**

*Transitional housing services for up to 8 adult (18+ years) males or females. Services include assistance in developing daily living skills and the administration of medications. Duration is based on time needed to develop sufficient skills to live independently with the support of outreach services.*

### **Community Based Flexible Services (Outreach)**

*This is a flexible outreach program for mentally ill individuals. . . . Services support the participant's development daily living activities . . . in order to live independently, and include money management.*

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## **Adult Residential Program**

*Long-term staffed housing for adults aged 22+ years, for individuals with mild to severe intellectual disabilities living in a staffed 24/7 adult residence with clinical supports, day treatment, and medication regimes.*

## **DDS Shared Living**

*Long-term shared living situations where individual is placed in the home of a family. The Shared Living Partner receives support from Gandara Center to ensure that the needs of the individual are met. Support services include, but are not limited to, a weekly stipend paid to the provider for room and board, clinical support, MAP certification, CRP and human rights training (for the partner). Individuals may be males and females aged 22+ years who have mild to moderate intellectual disabilities.*

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## APPENDIX B

### **Gandara Mental Health Center Inc. New Policies for Client Accounts (July 2014)**

*The cash account must be verified and counted every shift using the **Cash Count Verification Form**. . . . Discrepancies must be reported to the Program Supervisor immediately. . . .*

*The Fiscal Department will be responsible for reconciling all individuals' bank accounts monthly, including those accounts maintained by home share providers. Individuals' accounts will be reconciled monthly when the bank statement is available but no later than the 25th of each month. The reconciliation will be done and noted on the back of the bank statement, to include the initials of the staff member who completed the reconciliation and the date on which it occurred, and the Senior Manager will review and evidence the review by adding his/her initials and date of the review. Any unreconciled amounts must be supported with notations as to the actions taken to resolve the discrepancy. Should any unreconciled amount persist for more than one cycle, the Senior Manager will take steps to investigate more directly the root cause and implement appropriate procedures as needed, up to and including reporting to external agencies including Law Enforcement, [the Department of Mental Health], and [the Disabled Persons Protection Commission].*