



Office of the City Auditor

**Human Services' Client Funds Management and
Payment Collection Procedures**
(Phase 1, Part 1 and Phase 2)

Report Date: October 7, 2016

Office of the City Auditor
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"Promoting Accountability and Integrity in City Operations"



Office of the City Auditor

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Office of the City Auditor
Transmittal Letter

Date: October 7, 2016

To: Dave L. Hansen, City Manager

Subject: Human Services' Client Funds Management and Payment Collection
Procedures (Phase 1, Part 1 and Phase 2)



I am pleased to present the report of our audit of the Department of Human Services' procedures over client funds management and payment collection.

We have performed the procedures requested by City Council in the resolution titled "*A Resolution Directing the City Auditor to Conduct an Audit of all Department of Human Services programs that include (1) Managing clients' personal funds or (2) Collecting Payments from Clients*" dated October 6, 2015.

The procedures we agreed to perform and the results are presented herein. Findings considered to be of insignificant risk have been discussed with management. We completed the agreed-upon procedures on July 21, 2016.

This report is intended solely for the information and use of the City Council, Audit Committee, City Manager, and appropriate management. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We would like to thank the Department of Human Services for their courteous and prompt assistance during our audit. The staff was receptive and excellent to work with.

If you have any questions about this report, or any audit-related issue, I can be reached at 385.5872 or via email at lremias@vbgov.com.

Respectfully submitted,

Lyndon S. Remias, CPA, CIA
City Auditor

c: City Council Members
Audit Committee Members
Kenneth L. Chandler, Deputy City Manager
Dannette Smith, Director, Department of Human Services



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Office of the City Auditor Human Services' Client Funds Management and Payment Collection Procedures (Phase 1, Part 1 and Phase 2)

Purpose

The purpose of the review was to abide by the City Council resolution dated October 6, 2015 requesting the Office of the City Auditor to review all Department of Human Services (DHS) programs that include 1) the management of clients' personal funds and 2) collect payments from clients. The resolution followed DHS' discovery of client funds misappropriation by its staff member and our subsequent investigation into the matter.

Scope and Objectives

Based on the resolution, the objectives of the review were:

- To determine whether each program has documented policies and procedures related to the management and safeguarding of client funds.
- To determine whether those policies and procedures have adequate internal controls.
- To determine whether DHS staff and vendors with which DHS contracts to manage client funds are meeting all contractual requirements to ensure the proper safeguarding of client funds.
- To determine whether internal controls for handling client payments are designed effectively and operating as intended.

The review was divided into phases, each with specific objectives:

- Phase 1 - To determine the effectiveness of internal controls over service delivery, staff development, and client representative payee oversight.
- Phase 2 - To determine whether internal controls for receiving, recording, safeguarding, depositing, and reconciling payments and the handling of cash are designed effectively and operating as intended.

This report covers the Supported Residential Services program within Developmental Services' Supported Living Program (SLP) and the Payment Collection Procedures within DHS.

The scope of the review for:

- Phase 1 – The Supported Living Program is from January 1, 2016 to May 31, 2016.
- Phase 2 – The Payment Collection Procedures is from May 1, 2016 to June 30, 2016.



Office of the City Auditor Human Services' Client Funds Management and Payment Collection Procedures (Phase 1, Part 1 and Phase 2)

Methodology

In order to accomplish our objectives, we performed the following procedures:

- Met with DHS management to gain a high-level understanding of operations and issues.
- Obtained and reviewed DHS policies and procedures and other related documents applicable to managing clients' funds and those related to receiving, recording, safeguarding, depositing, posting, and reconciling of fees and other monies.
- Phase 1:
 - Reviewed training records and documentation on one-on-one meetings between supervisor and staff member to determine that staff members are adequately trained and supervised.
 - Selected samples of clients and reviewed funds ledger and payee requests forms and traced to source documents, including receipts, bank statements, and rental agreements, for completeness and accuracy.
 - Reviewed a sample of client service plans for appropriateness and completeness to agreed-upon financial services.
 - Reviewed a sample of client spending plans developed by the client representative payee for compliance with contractual requirements.
 - Obtained meeting records, interviewed management, and corroborated those with our onsite observations to determine adequacy of oversight over the contracted client representative payee.
- Phase 2:
 - Conducted a preliminary survey that was distributed to appropriate management and staff to identify payment collection locations and gain knowledge on processing payments received for each location.
 - Interviewed appropriate staff members at each location on procedures for receiving, recording, safeguarding, depositing, posting, and reconciling of fees and other monies.
 - Documented location-specific procedures for processing payments received.
 - Selected and reviewed a sample of payment transactions for each identified location to determine if they were accurately and properly recorded, deposited, and reconciled.
 - Assessed the extent of the segregation of duties between the payment handling functions at each location by conducting interviews, observations, and documentation review.



Office of the City Auditor Human Services' Client Funds Management and Payment Collection Procedures (Phase 1, Part 1 and Phase 2)

Standards

We conducted this agreed-upon procedures engagement in accordance with generally accepted government auditing standards which incorporate financial and attestation standards established by the American Institute of Certified Public Accountants. These standards also provide guidance for performing and reporting the results of agreed-upon procedures. Hence, we did not perform a performance audit of the Department of Human Services, the objective of which would have been the expression of an opinion on the Department of Human Services. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters may have come to our attention that would have been delineated in this report.

The Office of the City Auditor reports to City Council through the Audit Committee and is organizationally independent of all City Departments. This report will be distributed to the City's Audit Committee, City Council, Department of Human Services, and appropriate management. This report will also be made available to the public.



Office of the City Auditor Human Services' Client Funds Management and Payment Collection Procedures (Phase 1, Part 1 and Phase 2)

Background

The Department of Human Services provides Virginia Beach citizens the opportunity to achieve the highest level of self-sufficiency, safety, and quality of life possible, through an array of coordinated services delivered in a climate of dignity, respect, and accountability. The services that it offers are:



Developmental Services

Developmental Services provides services for Virginia Beach residents with intellectual disabilities and their families in order for these individuals to become self-directing and contributing members of our community.

Financial Services

Financial Services administers many different financial assistance programs on behalf of families and individuals with incomes at or below the poverty level including food stamps and grants.

Juvenile Detention Center

Juvenile Detention Center provides temporary and safe custody of juveniles that have criminal charges and require a restricted environment for their own protection or the protection of the public.

Mental Health Substance Abuse

Mental Health Substance Abuse promotes recovery for Virginia Beach residents and their families, with or at risk of, mental health, substance use or co-occurring disorders.

Social Services

Social Services aids citizens in times of temporary economic and social crisis; protects children and vulnerable adults from abuse and neglect; administers a range of services to help maintain families in the least restrictive and intrusive manner possible; and to assist in preparing citizens to find and retain employment.

Each of these service areas provides programs that handle client personal funds or receive fees or other revenues in the form of cash, checks, and credit. The City Council resolution of October 6, 2015 directed the Office of the City Auditor to conduct an audit of all Human Services programs involving management of clients' personal funds (Phase 1), as well as the collection of payments from clients (Phase 2).



Office of the City Auditor Human Services' Client Funds Management and Payment Collection Procedures (Phase 1, Part 1 and Phase 2)

Phase 1 addressed three City Council considerations as follows:

- Whether each program has documented policies and procedures;
- Whether those policies and procedures have adequate internal controls for overseeing and/or managing clients' personal funds; and
- Whether DHS staff and vendors with which DHS contracts to manage client funds are meeting all contractual requirements to ensure the proper safeguarding of client funds.

Phase 2 addressed the City Council consideration as to whether internal controls for handling client payments are designed effectively and operating as intended.



Office of the City Auditor Human Services' Client Funds Management and Payment Collection Procedures (Phase 1, Part 1 and Phase 2)

Results

Phase 1:

Developmental Services/SLP Supported Residential Program

A. Determine whether each program has documented policies and procedures.

We found that the SLP Supported Residential Services program has established the following documented policies and procedures.

- Policy #3.07- Handling of Funds for Individuals Receiving Services – Provides general information and procedures on client funds management.
- Policy #5.13- Coordination of Payee Services – Provides detail procedures for both DHS and representative payee staff members on funds requests on behalf of client and the monitoring of those funds.
- Client Funds Ledger Instructions – Provides detail procedures on completing, submitting, and supporting the funds ledger.

However, we did note the following:

- The Client Funds Ledger Instructions did not include instructions in completing the required "Funds Ledger – Bank Accounts" form.
- Deadline established for the financial packages review are not consistent across the policies (i.e., business days v. calendar days).

Recommendation

1.1 Wherever applicable, review and revise policies and procedures related to managing client funds to ensure completeness and consistency.



Office of the City Auditor Human Services' Client Funds Management and Payment Collection Procedures (Phase 1, Part 1 and Phase 2)

B. Determine whether those policies and procedures have adequate internal controls for overseeing or managing clients' personal funds.

We found that the documented and established policies and procedures noted above have addressed the areas of internal controls as identified in the City Council resolution. Although we did identify exceptions (see Table 1) during our sample testing, we noted they were not an indication of weak internal controls.

Table 1. Schedule of Exceptions Noted

Exception Descriptions	Exceptions	Sample Size
Financial transaction package was not reviewed timely.	15	20
Variance report was not completed.	4	20
Cash count was not performed.	3	20
Service plan did not have the signature of the guardian.	1	10
Service plan was not conveyed timely to the guardian.	1	10
Service plan did not have the Money section where financial services details are shown.	2	10
Service plan includes the Money section but financial services details were not mentioned.	1	10
Required Supervisor and staff individual monthly meeting not held.	5	27
Required Supervisor and staff individual monthly meeting was held but not documented on standard form.	3	27
Staff member with funds responsibilities did not attend the Payee Funds Request Training.	2	28

Recommendations

- 2.1 Ensure that the financial transaction packages are reviewed within the established timeframes. Evaluate the reasonableness of the current reconciliation and review timeframes. The purpose of reconciliations and reviews is to identify and address errors and issues in a timely manner. In determining the definition of "timely", management needs to make sure that enough time is allotted to ensure the purpose is met.
- 2.2 Ensure all required forms are completed.
- 2.3 Ascertain that weekly cash counts are performed.
- 2.4 Require that the service plan requirements are complete and conveyed to the guardian prior to the start of the service year.
- 2.5 Ensure that supervisors meet with their staff monthly and meetings results are properly documented.
- 2.6 Ensure that staff members are adequately trained for their responsibilities.



Office of the City Auditor
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C. Determine whether DHS staff and vendors with which DHS contracts to manage client funds are meeting all contractual requirements to ensure the proper safeguarding of client funds.

Through our review of the contract between DHS and the representative payee, The Up Center, interviews with DHS management, and sample testing, we found that both parties have met all contractual requirements to ensure the proper safeguarding of client funds. However, from a sample of seven (7) of 30 clients, we did find that the contractually required Spending Plans had the following deficiencies:

- Expense variances were not correctly calculated for all seven clients.
- Rental expenses for two clients were inaccurately reflected.

Recommendation

3.1 Human Services should work with The Up Center to correct all deficiencies of the Spending Plan.



Office of the City Auditor

Human Services' Client Funds Management and Payment Collection Procedures (Phase 1, Part 1 and Phase 2)

Phase 2:

Determine whether internal controls for handling client payments are designed effectively and operating as intended.

There are various programs and/or locations within DHS that receive revenue and/or payments from or on behalf of clients. DHS management has the responsibility for establishing and maintaining the proper environment of internal controls over cash handling by establishing written procedures and maintaining awareness through regular communications between management and staff. We identified 12 locations that receive client payments or other revenue. The Table 2, below, depicts the manner and method in which these funds are received and deposited.

Table 2. Schedule of Fee Collection Locations

#	Program/Location	Revenue Type		Payment Method						Deposited Through
		Fees	Other	In Person	Mail	Phone	Cash	Checks**	Credit Cards	
1	CSB Reimbursement	Yes	Yes	No	Yes	No	Yes	Yes	No	Treasurer's Office
2	DS Administration	Yes	No	Yes	Yes	No	Yes	Yes	No	Treasurer's Office
3	DS Family Support Center (PALS)	Yes	No	Yes	No	No	No	Yes	No	Reimbursement
4	MHSA Adult Outpatient Services- Magic Hollow	Yes	No	Yes	No	Yes	Yes	Yes	Yes	Treasurer's Office
5	MHSA Adult Outpatient Services- Pembroke 6	Yes	No	Yes	No	Yes	Yes	Yes	Yes	Treasurer's Office
6	MHSA Beach House	No	Yes	Yes	No	No	Yes	Yes	No	Treasurer's Office
7	MHSA Child and Youth Services	Yes	No	Yes	No	No	Yes	Yes	Yes	Reimbursement
8	MHSA Pathways Center*	No	No	No	No	No	No	No	No	Reimbursement
9	SS Accounting	Yes	Yes	Yes	Yes	No	Yes	Yes	No	Bank of America
10	SS Adult Protective Services	Yes	No	Yes	Yes	No	No	Yes	No	Treasurer's Office
11	SS Community Corrections	Yes	No	Yes	Yes	No	Yes	Yes	No	SS Accounting
12	SS Juvenile Detention Center	No	No	No	No	No	No	No	No	N/A

*Note: Pathways does not receive payments at their location, however, some clients do bring monies there to which is forwarded to Reimbursement for processing.

**Note: May include money orders

Our review focused on the five (5) areas of revenue (payment) collection cycle identified in the resolution: receiving, recording, safeguarding, depositing, and reconciliation. We interviewed each location's manager and staff to determine payment-handling procedures and conducted testing to determine effectiveness of internal controls and compliance with policies and procedures.



Office of the City Auditor Human Services' Client Funds Management and Payment Collection Procedures (Phase 1, Part 1 and Phase 2)

Results

Phase 2:

Through our review and sampling of key controls, we determined that internal controls over revenue collection: are designed effectively; are in compliance with Departmental and program level policies and procedures; and that policies and procedures are in place to promote appropriate accountability over client payments received through the various DHS locations.

Acknowledgements

We would like to thank the Department of Human Services staff for their responsiveness to our requests and their receptiveness to questions and comments during our review.

Human Services Department



DEVELOPMENTAL SERVICES

HSD Response to SLP Audit Phase 1B

August 01, 2016

Dannette R. Smith, Director

Aileen L. Smith,
CSB Deputy Director
Timothy Capaldo,
DS Division Director



City of Virginia Beach

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August 26, 2016

Lyndon S. Remias, City Auditor
Office of the City Auditor
2401 Courthouse Drive
Building 1, Room 344
Virginia Beach, VA 23456

Subject: Response to Human Services' Client Funds Management and Payment Collection Procedures.

The City of Virginia Beach Human Services Department (HSD) appreciates the time and effort that the Office of City Auditor (OCA) has dedicated to provide a thorough review of the Supportive Living Program (SLP). The objective of this audit was to determine the effectiveness of financial internal controls over service delivery, staff supervision and client payee representative oversight. Over the last year, several quality assurance improvements have taken place to strengthen the internal controls and customer service delivery, therefore, leading to no instances of fraudulent activity or theft in the program within the scope of this review.

The scope of the OCA audit was the January 1, 2016 – May 31, 2016 timeframe during which there was a city-wide hiring freeze in place. During this time, the Clinician IV, DS Division Director and HSD Administration provided consistent, strong leadership to the staff by working to make fundamental modifications in practice, guidance, training and supervision of staff members. In addition, the Clinician IV also worked extensively on ledger and case handling/monitoring with all the staff members and provided individual and group supervision and leadership. HSD Administration, the DS Division Director as well as the Clinician IV worked on relationship building with Up Center staff members to ensure all stakeholders were appropriately informed of changes to current procedures and that changes in practice were clearly reviewed, discussed and communicated.

Results:

A. Determine whether each program has documented policies and procedures.

Recommendation: Wherever applicable, review and revise policies and procedures related to managing client funds to ensure completeness and consistency.

HSD understands the practice and the timeframes in the policy and the guidance document need to be realigned to ensure enough time for Supervisors to complete a thorough review and

complete their quality assurance measures. HSD will reexamine deadlines of the financial transactions reviews by reviewer. Policy updating for both 3.07 and Guidance Document 5.13 will occur by end of October 2016. Guidance Document 5.13 will be re-reviewed with the Up Center in the next meeting. SLP program staff members will be notified and trained on the changes by the end of November 2016. Furthermore, the department implemented a Money Management acknowledgment letter for SLP staff to sign on an annual basis.

B. Determine whether those policies and procedures have adequate internal controls for overseeing or managing clients' personal funds.

Recommendation(s):

- ***Ensure that the financial transaction packages are reviewed within the established timeframes.*** Both Policy 3.07 and Guidance Document 5.13 will be updated to reflect consistent and reasonable timeframes in which the transaction packages are reviewed by staff, Supervisors and Finance.
- ***Ensure all required forms are completed.*** As part of the update of the revision of Policy 3.07 the threshold of cash on hand will increase to \$150.00 and should reduce the need for variance reports. However, the Supervisor reviewing the packet shall make note if a variance form is missing and provide guidance to the staff in case of any error.
- ***Ascertain that weekly cash counts are performed.*** This item will be added to the monthly supervision form for individuals responsible for weekly cash counts. The Supervisor reviewing the funds ledgers shall make note if this is not being completed and provide guidance to the staff in case of any error.
- ***Require that the service plan requirements are complete and conveyed to the guardian prior to the start of the service year.*** Through our integrated treatment plan, obtaining a signature for the plan is the responsibility of the Single Accountable Individual (SAI) which in most cases is the case manager. This is not practicable for SLP in terms of management or accountability; therefore the SLP division will incorporate their own signature page for treatment plans.
- ***Ensure that Supervisors meet with their staff monthly and that meeting results are properly documented.*** The SLP Supervisor in conjunction with the Clinician IV has developed a checklist for staff Supervisions that is reviewed monthly.
- ***Ensure that staff members are adequately trained for their responsibilities.*** On-going training is a part of continuous quality improvement for HSD and training will be an integral part of the department's goals for the future for all staff members.

C. Determine whether HSD staff and vendors with which HSD contracts to manage client funds are meeting all contractual requirements to ensure the proper safeguarding of client funds.

Recommendation:

Human Services should work with The Up Center to correct all deficiencies of the spending plan. At the meeting scheduled for September 21, 2016, the HSD staff will discuss with the Up Center a possible adjustment to the title of their form to reflect "Quarterly Spending Report" versus "Quarterly Deficit Report" in order to accurately categorize the information being

provided. Since the time of the OCA audit, the Up Center has reviewed the spending plan format and they are making an adjustment to reflect quarterly income and expenditures with corresponding dates. Currently the plan may show a "deficit" if a client spent more than their income in a given month, without reflecting the fact that they have the funds available in their savings. The spending plan electronic platform will be discussed at follow up meetings with the Up Center to continue to improve our communication and oversight of proposed budgets for the clients.

In conclusion, this audit and the follow up recommendations have provided the department with additional opportunities to continue to strengthen departmental infrastructure and develop sustainable processes for the future. I would also like to assure you that HSD leadership worked diligently to address each concern and recommendation and will continue to address these recommendations to ensure transparency and partnership with the City and its community partners.

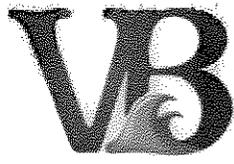
Thank you again for your willingness to provide feedback to the department on our strategies to increase the accountability and quality in the delivery of all of our services. Should you have additional questions or concerns please feel free to contact me at drssmith@vbgov.com or (757) 385-3613.

Sincerely,



Dannette R. Smith, Director
Human Services Department

Cc: Ken Chandler, Deputy City Manager
Aileen L. Smith, CSB Deputy Director
Timothy Capoldo, DS Division Director

 *City of Virginia Beach*
Human Services

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INTER-OFFICE MEMORANDUM

DATE: July 29, 2016
TO: Lyndon S. Remias, City Auditor
FROM: Dannette R. Smith, Director
SUBJECT: Management Response – Revenue Collection Review

On July 20, 2016, I received the summary memos containing the results of the Revenue Collection Review conducted by you and your team, Gretchen Hudome and Timothy Bell. Based on the recommendations made in those memos, we have developed an action plan to address and correct each item by August 31, 2016.

Report recommendations that have been implemented as of today, July 29, 2016:

Community Corrections and Pretrial

1. Create a process that ensures individual deposits are reconciled to InSITE
 - DHS Finance staff have been performing this task for Community Corrections. When Ms. Jones was asked about it, she was not sure who was currently responsible for the reconciliation. Prior to her retirement, Edna Hanipol had this assignment. Currently, it belongs to Karen Arnoe.

Magic Hollow

1. Ensure the Treasurer's Receipt is reconciled to supporting documentation upon return and the reconciliation is documented
 - Responsibilities have been delegated so that the individual making the deposit at the bank verifies and initials that the deposit slip matches the Record of Collections (ROC) at the time of deposit, and a second employee verifies and initials that the deposit receipt returned from the bank also matches the ROC.

Report recommendations being implemented during the month of August 2016:

Adult Protective Services Unit

1. Obtain a receipt from DHS Accounting upon transmittal of funds
 - DHS Accounting will take over acceptance of Guardianship fees and will issue receipts in person or by mail
2. Create a method to compare and reconcile the paid and unpaid amounts
 - DHS Accounting will log all Guardianship payments received on tracking spreadsheet.
 - Weekly, Guardianship reports will be attached to a printout of tracking spreadsheet and sent from DHS Accounting to APS
 - APS will reconcile payments on spreadsheet to Guardianship reports and payment requests
 - DHS Accounting staff not responsible for receipt or recording of Guardianship fees will reconcile tracking sheet against InSITE monthly
3. Enhance the current spreadsheet to sufficiently track and record guardianship paid and unpaid filing fees
 - APS will log all Guardianship payment requests on tracking spreadsheet, creating a record to compare payments and what remains unpaid
 - A place to record type of payment will be added to the spreadsheet

Child and Youth Services

1. Change the safe's combination on a periodic basis
 - Purchase new safe that allows staff to change the combination periodically

Beach House

1. Prepopulate the dates on the Revenue Posting Transactions Log to ensure all monies in the safe are accounted for and deposited in a timely manner
 - Dates are now being entered onto the Revenue Posting Transactions Log for the entire month in advance.

Pathways Center

1. Obtain receipt book for issuing to clients for payments received at this location
 - A receipt book is now kept at Pathways and all payments accepted at the program are receipted back to the individual making the payment.

Social Services

1. Monthly reconciliation procedures should be performed by an employee with no cash handling and/or posting responsibilities
 - An employee tasked with the day to day transactions and payment receipt for a particular program will reconcile a different program against InSITE

I appreciate the time you and your team invested in this review and would like to thank you for helping us to continue strengthening our internal controls. Please feel free to contact me with any questions or concerns at 385-3613 or drsmith@vbgov.com

Thank you.

c: Ken Chandler, Deputy City Manager
Aileen Smith, HSD Deputy Director, CSB
Gailyn Thomas, HSD Deputy Director, Social Services
Donald Kirtland, HSD Deputy Director, CQI
Dawn Rykheart, HSD Business Manager



Office of the City Auditor

Human Services' Client Funds Management
(Phase 1, Part 2)

Report Date: October 7, 2016

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Office of the City Auditor
Transmittal Letter



Date: October 7, 2016
To: Dave L. Hansen, City Manager
Subject: Human Services' Client Funds Management (Phase 1, Part 2)

I am pleased to present the report of our review of the Department of Human Services' procedures over client funds management at the following programs: Developmental Services' Residential Services, Developmental Services' Intermediate Care Facilities and Mental Health Substance Abuse Supportive Residential Services.

We have performed the procedures requested by City Council in the resolution titled "*A Resolution Directing the City Auditor to Conduct an Audit of all Department of Human Services programs that include (1) Managing clients' personal funds or (2) Collecting Payments from Clients*" dated October 6, 2015.

The procedures we agreed to perform and the results are presented herein. Findings considered to be of insignificant risk have been discussed with management. We completed the agreed-upon procedures on August 31, 2016.

This report is intended solely for the information and use of the City Council, Audit Committee, City Manager, and appropriate management. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited. This report completes our work related to the resolution mentioned above.

We would like to thank the Department of Human Services for their courteous and prompt assistance during our review. The staff was receptive and excellent to work with.

If you have any questions about this report, or any audit-related issue, I can be reached at 385.5872 or via email at lremias@vbgov.com.

Respectfully submitted,

Lyndon S. Remias, CPA, CIA
City Auditor

c: City Council Members
Audit Committee Members
Kenneth L. Chandler, Deputy City Manager
Dannette Smith, Director, Department of Human Services



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Management's Response	Attachment A



Office of the City Auditor Human Services' Client Funds Management (Phase 1, Part 2)

Purpose

The purpose of the reviews was to abide by the City Council resolution dated October 6, 2015 requesting the Office of the City Auditor review all Department of Human Services (DHS) programs that include 1) the management of clients' personal funds; and 2) collect payments from clients. The resolution followed DHS' discovery of client funds misappropriation by its staff member and our subsequent investigation into the matter.

Scope and Objectives

Based on the resolution, our objectives were:

1. To determine whether each program has documented policies and procedures related to the management and safeguarding of client funds.
2. To determine whether those policies and procedures have adequate internal controls.
3. To determine whether DHS staff and vendors with which DHS contracts to manage client funds are meeting all contractual requirements to ensure the proper safeguarding of client funds.
4. To determine whether internal controls for handling client payments are designed effectively and operating as intended.

The review was divided into phases, each with specific objectives:

- Phase 1 - To determine the effectiveness of internal controls over service delivery, staff development, and client representative payee oversight.
- Phase 2 - To determine whether internal controls for receiving, recording, safeguarding, depositing, and reconciling payments and the handling of cash are designed effectively and operating as intended.

The results of our reviews of the management and safeguarding of client funds within Developmental Services' Supported Residential Services program, DHS' contract for representative payee services and revenue collection procedures were presented in our report entitled, *Human Services' Client Funds Management and Payment Collection Procedures (Phase 1, Part 1 and Phase 2)*, dated October 7, 2016.

This report addresses the results of our work associated with the management and safeguarding of client personal funds (Objectives 1 and 2) at the following DHS programs: Developmental Services' Residential Services; Developmental Services' Intermediate Care Facilities; and Mental Health Substance Abuse Supportive Residential Services. This report completes our work related to the resolution mentioned above.



Office of the City Auditor Human Services' Client Funds Management (Phase 1, Part 2)

The scope of our review covered policies and procedures in place as of January 1, 2016. We tested compliance with these policies and procedures for the one-month period of June 1, 2016 through June 30, 2016. Cash counts and reconciliations were performed in August 2016.

Methodology

In order to accomplish our objectives, we performed the following procedures:

- Met with DHS management to gain a high-level understanding of operations and issues.
- Obtained and reviewed DHS policies and procedures and other related documents applicable to managing clients' funds and those related to receiving, recording, safeguarding, depositing, posting, and reconciling of fees and other monies.
- Selected samples of clients and reviewed funds ledger and payee requests forms and traced to source documents, including receipts and bank statements for completeness and accuracy.

Note: Since management has commenced action to enhance the internal controls and documentation based on the Phase 1, Part 1 review findings, we did not review the activities and timeliness related to spending plans, service plans, staff meetings, staff training, rental agreements, representative payee oversight, and DHS Finance's oversight controls over monthly financial transactions reviews and semi-annual funds ledger review. Instead, our reviews in this second part focused on transactional internal controls, i.e., proper and complete support of transactions, reconciliation among reports, and onsite cash counts (where applicable).



Office of the City Auditor Human Services' Client Funds Management (Phase 1, Part 2)

Standards

We conducted this agreed-upon procedures engagement in accordance with generally accepted government auditing standards which incorporate financial and attestation standards established by the American Institute of Certified Public Accountants. These standards also provide guidance for performing and reporting the results of agreed-upon procedures. Hence, we did not perform a performance audit of the Department of Human Services, the objective of which would have been the expression of an opinion on the Department of Human Services. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters may have come to our attention that would have been delineated in this report.

The Office of the City Auditor reports to City Council through the Audit Committee and is organizationally independent of all City Departments. This report will be distributed to the City's Audit Committee, City Council, Department of Human Services, and appropriate management. This report will also be made available to the public.



Office of the City Auditor Human Services' Client Funds Management (Phase 1, Part 2)

Background

The Department of Human Services provides Virginia Beach citizens the opportunity to achieve the highest level of self-sufficiency, safety, and quality of life possible, through an array of coordinated services delivered in a climate of dignity, respect, and accountability.

The services offered include developmental services for intellectually disabled individuals; financial services for individuals and families at or below poverty level; temporary detention of juveniles with criminal charges; assistance to individuals with or at risk of mental health, substance abuse, or co-occurring disorders; and social services to individuals and families in temporary economic and social crisis. The three programs addressed in this report are:



- Residential Services (RS), a program within the Developmental Services' Supportive Living Program (SLP), is focused on providing support to individuals in a group home setting located in Virginia Beach. Services are primarily funded via Medicaid Mental Retardation Waiver monies. Services may include support and assistance with money management, personal care, participation in recreational and social activities, and coordination of medical and dental care, as needed. Program staff has direct access to client funds. We visited the following group homes: Bayside, Cape Henry, Chelsea, Gladiola, and Gresham.
- Intermediate Care Facilities (ICF), a program within the Developmental Services' SLP, serves persons age 21 or older with a diagnosis of intellectual disability, physical impairments, and chronic health issues. Services include around the clock awake care, active treatment, leisure and community activities, and available 24 hour nursing care. Program staff has direct access to client funds. We visited the following locations: Colby, Indian River, Kentucky, and West Neck.
- Supportive Residential Services (SRS), a program within the Mental Health Substance Abuse Division, provides a continuum of supportive and supervised residential options for adults including transitional housing, adult foster care, assisted living facilities, co-occurring transitional housing, and subsidized housing with in-home support. The program includes mental health skill building services that focus on the acquisition of skills in activities of daily living such as personal safety, nutrition, medication, and money management. MHSA SRS program provides training, support services and opportunities for consumers to manage their finances to the maximum extent possible. Consumers receive these services only if their individual treatment plans identify the need for assistance and support. Program staff does not have direct access to client funds.



Office of the City Auditor Human Services' Client Funds Management (Phase 1, Part 2)

Results

A. Determine whether each program has documented policies and procedures.

We found that all three programs use and/or refer to the following DHS documented policies and procedures.

- Policy #3.07- Handling of Funds for Individuals Receiving Services – Provides general information and procedures on client funds management.
- Guidance #5.13 - Coordination of Payee Services – Provides detailed procedures for both DHS and representative payee staff for funds requests on behalf of client and the monitoring of those funds.
- Client Funds Ledger Instructions – Provides detailed procedures for completing, submitting, and supporting the funds ledger.
- Supportive Residential Services Protocol for Handling of Client Funds – Provides guidance for providing funds management assistance and support to clients of MHSA Supportive Residential Services.

However, we identified eleven areas we deem need revisions in order to enhance clarity, consistency, completeness, or organization (see Table 1). For purposes of our review, they are defined as:

- *Clarity* – Conditions of a requirement should be stated clearly.
- *Completeness* – Requirement should be documented in applicable policies and forms.
- *Consistency* – Requirement should be documented uniformly in all applicable policies and forms.
- *Organization* – Details of a requirement should be listed together in one area and in one policy.

Table 1. Recommended Policy Revisions related to Clarity, Consistency, Completeness, and/or Organization

Area	Policy 3.07	Guidance 5.13	Client Funds Ledger Instructions	Related Forms
Variance reporting instructions are not listed together and some are not explicitly stated.	--	--	Clarity Organization	Completeness: Variance Report
One paragraph on cash limits has extra conditions that are not in other paragraphs.	Consistency	--	Consistency	Consistency: Variance Report
ICF cash limit of \$50 is not mentioned in two policies and the Variance Report Form.	Completeness		Completeness	Completeness: Variance Report
Policy is silent on logging incoming checks when received but most staff do so in practice.	--	--	Completeness	--



Office of the City Auditor Human Services' Client Funds Management (Phase 1, Part 2)

Area	Policy 3.07	Guidance 5.13	Client Funds Ledger Instructions	Related Forms
Policy is silent on supporting interfund transfers with generic receipt but most staff do so in practice.	--	--	Completeness	--
Policy is silent on supporting withdrawals with generic receipt but most staff do so in practice.	--	--	Completeness	--
Policy is silent on providing receipt for a cash gift but most staff do so in practice.	--	--	Completeness	--
Policy does not state a time period for its funds ledger review.	--	--	Completeness	--
Policies tend to be repetitive, i.e., restating details instead of referencing the other policies.	Clarity Organization	--	Clarity Organization	--
Policy is incorrect regarding tracking the variance on the payee request form.	--	--	Clarity	--
Inconsistent title of reviewer.	Consistency	Consistency	Consistency	Consistency: Funds Ledgers; Payee Request Tracking Form; Consumer Funds Variance Form; and Monthly Money Management Tracking Form

Recommendation

- 1.1 Where applicable, review and revise all policies and procedures related to managing client funds to ensure clarity, completeness, consistency, and organization.



Office of the City Auditor Human Services' Client Funds Management (Phase 1, Part 2)

B. Determine whether those policies and procedures have adequate internal controls for overseeing or managing clients' personal funds.

We found that the established policies and procedures noted above have sufficiently addressed the areas of internal controls as identified in the City Council resolution except as noted in Table 2 below. To ensure compliance with departmental policies and procedures, we tested the June 2016 transactions for 100% of the active clients in the two Developmental Services programs and 10 of the 27 consumers receiving financial management and/or budgeting assistance through MHSA Supportive Residential Services. Based on the results of samples, we identified the following exceptions:

Table 2. Schedule of Exceptions Noted

Exception Descriptions	RS	ICF	MHSA SRS ¹
Variance report was not completed.	6	10	n/a
Weekly cash count was not performed.	4	7	n/a
Check not cashed or deposited within 7 days of receipt.	1	4	n/a
House Cash Fund consistently exceeded the \$20 limit despite the absence of an immediate need for the excess balance.	3	--	n/a
Payment Request Form submitted to Representative Payee prior to Supervisory approval.	--	--	1

Recommendations

- 2.1 Ensure that supervisors continue to perform thorough reviews of staff work.
- 2.2 Ensure that staff members understand that the purpose of the \$20 House Cash limit is to reduce the risk of loss to that minimal amount. If there is an absence of immediate need for the excess balance within seven days, the excess amount should be deposited to the Secured Cash fund, where it is kept in a key-locked bag that is accessible only to the staff member primarily assigned to the client.

Acknowledgements

We would like to thank the Department of Human Services staff for their responsiveness to our requests and their receptiveness to questions and comments during our reviews.

¹ MHSA SRS staff does not have direct access to client funds.



City of Virginia Beach

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October 3, 2016

Lyndon S. Remias, City Auditor
Office of the City Auditor
2401 Courthouse Drive
Building 1, Room 344
Virginia Beach, VA 23456

Subject: Response to Human Service's Client Funds Management (Phase 1, Part 2).

This letter in response to the City of Virginia Beach Office of the Auditor's review of the Human Services Department client funds management practices and payment collection (Phase 1; Part 2) which was recommended via a City Council resolution dated October 6, 2015. The purpose of the audit was to complete a thorough review of all Human Services Department (HSD) programs that are involved in the management of client's personal funds to include all of the Developmental Services and Mental Health Substance Abuse programs that may collect payments from clients as well as any programs that monitor client ledgers and liaison with representative payee agencies. The review covered a full sample of clients receiving funds management for the month of June, 2017. Over the last year, several quality assurance improvements have taken place within HSD. These upgrades to our policies and our practices have strengthened the internal controls and customer service delivery. At the completion of this phase of the audit, it was determined that there were no instances of fraudulent activity or theft in the programs that were reviewed in the Human Services Department.

Results of the Review:

A. Determine whether each program has documented policies and procedures.

Recommendation: *Where applicable, review and revise policies and procedures related to managing client funds to ensure clarity, completeness, consistency, and organization.*

HSD understands the practice and the timeframes in the policies and the guidance document needed to be realigned. We evaluated this internally at the end of 2015 and decided to forgo any realignment in the funds management policies until the Office of the City Auditor could complete their review and also make recommendations to the agency. HSD agrees with the recommendations from the auditors and has re-drafted the policies to ensure enough time is allowed for Supervisors to complete a thorough review and also complete a quality assurance check. Finalization of the documents will occur by the end of October 2016. The update to Guidance Document 5.13 can be re-reviewed with the Up Center in the next meeting that will occur in December. The program staff members will be notified and trained on the changes by the

end of November 2016. In addition, to the realignment of policies and practice, HSD implemented a Money Management acknowledgment letter for SLP staff to review and sign on an annual basis. This letter outlines accountability practices that are expected of all employees that work with a client in terms of money management.

B. Determine whether those policies and procedures have adequate internal controls for overseeing or managing client's personal funds.

Recommendation(s):

- ***Ensure that supervisors continue to perform thorough reviews of staff work.***

All staff will receive monthly written supervision with their immediate supervisor. The staff will have this supervision documented on the standard tools which have been created within the last year and are program specific. The review of funds management processes and ledgers is a standard item with all the staff members and supervisors that are involved in the management of client's funds. Furthermore, the HSD Finance Department reviews the funds ledgers monthly.

- ***Ensure that staff members understand that the purpose of the \$20 House Cash limit is to reduce the risk of loss to that minimal amount. If there is an absence of immediate need for the excess balance within seven days, the excess amount should be deposited to the Secured Case fund, where it is kept in a key-locked bag that is accessible only to the staff member primarily assigned to the client.***

Staff will be retrained on Guidance Document 8.03- *Individual Funds Ledger Instructions* by no later than the end of November 2016. This document clearly states the need for a variance report when the funds are in excess of the allowable amount. Furthermore, staff will be trained on how to complete and submit the detailed variance report. This will also be reviewed in monthly staff supervision within the applicable programs in HSD.

In conclusion, this audit and the follow up recommendations have provided the department with additional opportunities to continue to strengthen departmental infrastructure and develop sustainable processes for the future. I would also like to assure you that HSD leadership has worked diligently to address each concern and recommendation and will continue to address these recommendations to ensure transparency and partnership with the City and its community partners.

Thank you again for your willingness to provide feedback to the department on our strategies to increase the accountability and quality in the delivery of all of our services. Should you have additional questions or concerns please feel free to contact me at drsmith@vbgov.com or (757) 385-3613.

Sincerely,

Dannette R. Smith, Director
Human Services Department

HSD Response to OCA
Re: Client Funds Management/Payment Collection Procedures
October 3, 2016
Page 3

Cc: Ken Chandler, Deputy City Manager
Aileen L. Smith, CSB Deputy Director
Timothy Capoldo, DS Division Director