



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF PUBLIC WELFARE
BUREAU OF FINANCIAL OPERATIONS
3rd Floor Bertolino Building
Harrisburg, Pennsylvania 17105-2675

FEB 28 2007

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JOHN H. BUNGO, CGFM, CFS
DIRECTOR

Mr. George Stoltzfus
Chief Executive Officer
Friendship Community
1149 East Oregon Road
Lititz, Pennsylvania 17543-8366

Dear Mr. Stoltzfus:

I am enclosing the final performance report of the Friendship Community management of consumer funds as completed by this office. Your response has been incorporated into the final report and labeled Appendix A.

The final report will be forwarded to the Department's Office of Developmental Programs (formerly the Office of Mental Retardation) to begin the Department's resolution process concerning the report contents. The staff from that Office may be in contact with you to follow-up on the corrective actions actually taken to comply with the report's recommendations.

I would like to express my appreciation for the courtesy and cooperation extended to my staff during the course of the fieldwork.

If you have any questions concerning this matter, please contact Richard Polek of the Audit Resolution Section at (717) 787-8890.

Sincerely,

A handwritten signature in cursive script that reads "John H. Bungo".

John H. Bungo, CGFM, CFS

Enclosure

cc: Ms. McCool/Mr. Witt
Ms. Deans

Some information has been redacted from this audit report. The redaction is indicated by magic marker highlight. If you want to request an unredacted copy of this audit report, you should submit a written Right to Know Law (RTKL) request to DPW's RTKL Office. The request should identify the audit report and ask for an unredacted copy. The RTKL Office will consider your request and respond in accordance with the RTKL (65 P.S. §§ 67.101 et seq.). The DPW RTKL Office can be contacted by email at: ra-dpwtkl@pa.gov.



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Mr. Kevin T. Casey
Deputy Secretary for Mental Retardation
512 Health & Welfare Building
P.O. Box 2675
Harrisburg, Pennsylvania 17105-2675

Dear Mr. Casey:

The Bureau of Financial Operations (BFO) recently completed an audit of Friendship Community (FC) activities associated with the management of consumer funds. The audit was requested by the Office of Mental Retardation (OMR) and was included in the Department of Public Welfare's (DPW) Annual Agency Audit Plan.

The BFO's mission, accomplished through its audit and review activities is to assist DPW management to administer human service programs of the highest quality at the lowest cost, with integrity.

The issues described in this audit report emphasize areas of program operations requiring improvement. This emphasis does not equally recognize all aspects of program activities, but concentrates on problems, deficiencies and opportunities for constructive improvement.

Results in Brief

The BFO audit activities disclosed that overall FC has good operating processes and control systems to safeguard consumer funds. A more detailed description is provided in the General Conclusion contained in our Results of Fieldwork Section of this report.

We did, however, identify areas that will strengthen controls and processes even more. These include issues such as making restitution for oversights and procedural improvements and are shown in issue number one.

Results in Brief (Continued)

Also, the report addresses one observation that deals with obtaining MA participating dental services.

Background

FC is a non-profit organization established in 1972. They employ 220 full and part-time staff and serve 134 people with developmental disabilities. FC operates sixteen community living arrangement (CLA) residences in Lancaster County and one in Lebanon County. FC operates three ICF/MR facilities in Lancaster County. FC also provides Semi-Independent Living (SIL), Life Sharing (LS), Family Living Arrangement (FLA) and Personal Care Home (PCH) services.

The FC 2006 budget was approximately \$6.5 million. Roughly 60% of FC funding comes from Commonwealth and county contracts. The remaining income is provided through occupancy income and private donations.

The majority of FC residents receive monthly benefits including Social Security, Supplemental Security Income (SSI) and other sources. The amount of the monthly benefit varies according to the consumer's specific circumstances and eligibility. Many of the residents are employed and generate work income. FC is responsible for managing the personal funds of a majority of their residents by acting as the designated Representative Payee (RP). Some residents manage their own funds if they are capable of doing so.

The BFO completed a prior performance audit of FC, tracking number C0006, and issued its report October 26, 2001. FC's compliance with the resulting BFO recommendations is addressed in the body of this report. The current audit request was generated in response to numerous consumer fund incidents filed through the OMR Home and Community Services Information System (HCSIS) computer system by FC. The resolution of these incidents is also addressed in this report. Individuals receiving OMR services may be referred to as residents, clients or consumers in this report.

Objective/Scope/Methodology

The BFO review objective developed in response to OMR's request was to evaluate the FC administration and management of consumer funds and determine whether it complies with applicable regulations and provides necessary safeguards that prevent and detect misuse.

The scope of the review was Fiscal Year (FY) 2005-2006 including current operations. For purposes of verifying FC compliance with previous BFO audit recommendations some prior period information was reviewed on a limited basis.

Objective/Scope/Methodology (Continued)

In pursuing this objective, the BFO interviewed FC staff including the Chief Executive Officer, the Director of Programs, the Financial Director, the Resident Financial Coordinator (RFC) and several House Supervisors. The BFO visited two ICF/MR homes, three CLA residences and two FLA homes, all in Lancaster County. The consumer fund records of twelve residents were reviewed in detail. This included reviewing or verifying cash balances, room and board (R & B) contracts, bank statements, checkbook registers, petty cash ledgers, benefit and work income records, resident inventories and funeral planning. Other documents and records were reviewed including FC consumer fund policies and procedures (P & P), residence budgets, service rendered reports and invoices.

Government auditing standards require that the BFO obtain an understanding of management controls that are relevant to the audit objectives described above. The applicable controls were examined to the extent necessary to provide reasonable assurance of compliance with generally accepted accounting principles. Based on our understanding of the controls, no significant deficiencies came to our attention other than those described in issue one of this report.

Fieldwork was conducted between October 10, and October 24, 2006. The contents of this report were discussed with FC staff at a closing conference held at FC on November 8, 2006. The audit was conducted in accordance with Generally Accepted Government Auditing Standards. This report, when presented in its final form, is available for public inspection.

Results of Fieldwork**General Conclusion: FC's Consumer Fund Policies, Procedures and Control Systems Satisfactorily Safeguard Consumer Funds Against Misuse.**

OMR provider agencies are required to comply with applicable regulations in order for the Department to financially participate in their costs. Establishing procedures for the protection and adequate accounting of individual funds and property is specifically required in the program regulations and therefore an integral part of a provider's responsibilities. The P & P requirements are described in MR Bulletin 6000-88-08. Additionally, Title 55, Chapter 6200 and Chapter 6400, Section 22 provide guidance on individual funds and property requirements. The BFO review of FC's consumer fund management indicates that their policies provide the necessary safeguards against abuse as described below.

Results of Fieldwork (Continued)**A. FC Has Substantially Implemented the Recommendations Made In the BFO 2001 Audit.**

Provider agency managers are responsible for addressing the findings and recommendations of auditors and for establishing and maintaining a process to track the status of audit findings and recommendations. Because the BFO audited FC consumer fund administration in 2001, their compliance with the recommendations made in that report were evaluated. FC was found to have implemented the following practices and incorporated them into their written procedures.

- The imprest cash management system is now utilized to account for consumer funds within the homes with the exception of FLA Providers.
- Receipts for cash and checkbook purchases are maintained separately and numbered.
- Bank statement reconciliations are satisfactorily performed and documented.
- Consumer personal inventories are satisfactorily documented and monitored.
- Residential financial and programmatic data is developed and maintained in an electronic database.

B. FC Has Dedicated One Staff Member Exclusively To Monitoring Consumer Funds.

FC created the RFC position in order to ensure organizational compliance with their internal P & P. The responsibilities of the RFC include the following:

- Performing on site monitoring visits at CLA and ICF/MR facilities every two months.
- Reconciling bank statements for all residents.
- Verifying transactions are correct and satisfactorily documented and cash balances are accurate.
- Recording resident consumer fund information in a summary spreadsheet including: work and other income, room and board (R&B) payments, cash and other asset account balances.

Results of Fieldwork (Continued)

- Providing a report describing the results of the monitoring visits to executive staff.

C. FC Has Updated Or Amended Their P & P Such That They Satisfactorily Comply With OMR Bulletin 6000-88-08.

Organizational P & P are necessary to ensure that employees work activities are adequately defined and consistently implemented. Adequately documented P & P also ensure that providers satisfactorily address the regulatory requirements addressed in OMR Bulletin 6000-88-08. A BFO review of the FC consumer fund P & P indicate that they satisfactorily comply with OMR regulatory requirements in all material respects. However, some areas were identified where additional documentation would improve or clarify staff practices. These are discussed in report issue one.

D. FC Internal Controls Identified A Serious Misappropriation Of Client Funds.

Although consumer fund internal control systems are designed to prevent any instances of fraud and abuse from occurring, their actual effectiveness is revealed when instances of misuse inevitably occur. In January, 2005 FC staff identified a serious misappropriation of two residents' funds totaling \$1,744. An employee wrote checks to cash from the resident's checking account and was unable to supply receipts for the purchases. Appropriate disciplinary action was taken after an internal investigation including resident repayment of the missing client funds. If undetected, this incident could have resulted in an even higher monetary loss to FC residents.

Although the BFO considers the investigation to have been thoroughly conducted we note the following shortcomings. Documentation that the resident was reimbursed was not maintained in the investigation file and the funds were not identified as non-reimbursable to Lancaster MH/MR. This means that the County could have repaid FC for an ineligible expense. However, the BFO established that FC was not compensated for the reimbursement in this case.

FC reported fifteen consumer fund incidents through the OMR Home and Community Services Information System (HCSIS) network database between January 1, 2000 and October 1, 2006. The BFO review indicates that with the exception of the incident described above they could be characterized as minor and indicates the tendency of FC staff to report all incidents in accordance with OMR procedures. The quantity of incidents reported by FC should not be interpreted as an indication of underlying problems or a lack of consumer fund oversight monitoring.

Results of Fieldwork (Continued)**Issue No. 1: Improvements To FC's Consumer Fund Policies, Procedures and Systems Can Be Made**

Although FC has satisfactorily implemented consumer fund policies, procedures and controls that provide necessary safeguards against abuse, BFO fieldwork revealed several areas where internal compliance to those policies could be improved or additional policies are suggested.

A. **Restitution by FC is Needed to Resolve Several Instances of Handling of Consumer Funds**

The auditor's examination of consumer ledgers and room and board assessment calculations revealed that personal funds were mishandled for certain residents. This includes charging consumers for program allowable costs and not providing access to all the personal funds that are due to the consumers. The following instances identify those situations where FC's practices vary from recommended procedure:

1. The FC RFC calculates and invoices the monthly assessment for consumers in their ICF/MR facilities in lieu of invoicing the consumer assessment as determined by the County Assistance Office (CAO). According to DPW's Nursing Care Handbook, Section 486.6, related to ICF/MRs, the CAO is responsible for determining the consumer's assessed liability. The CAO determines the consumer's assessed liability through a DPW form known as a PA-162. As a result, certain consumers only received a \$30 personal care allowance. Act 154 of 2004 increased the personal care allowance to \$40 per month, effective March 1, 2005. [Note- this increase is not applicable to consumers that receive Supplemental Security Income (SSI).] Based on a schedule the RFC prepared for April 2006, six ICF/MR consumers should have received an additional \$10 each month for their personal care allowance. If that number of consumers was consistent since March 2005, FC would owe the consumers \$1,260 in additional personal care allowances. PA Code, Title 55 Chapter 6210, Section 6210.94(d) provides "If discrepancies are proven and the facility is found to be at fault, the facility shall make restitution to the recipients for funds improperly handled, accounted for or disbursed". FC has an obligation to identify and pay their consumers for these shortages.
2. The auditors noted that FC treats lump sum retroactive Social Security payments to ICF/MR consumers as income in the month received. In April 2006, two residents of the Mondale facility each received lump sum payments of \$1,915. PA Code, Title 55 Chapter 181, Section 181.121(a)(17) provides that retroactive Social Security payments received are exempt for six months after the month in which the retroactive payment is received. The CAO must be notified of the lump

Results of Fieldwork (Continued)

sum payments in a timely manner in order for the six month exemption to apply. DPW's Nursing Care Handbook, Section 457.5 related to Lump Sum Overpayments defines timely as seven days. During the period of exemption, the lump sum amount is to be spent to benefit the consumer. Purchases could include upgrades to medical devices not covered by MA, upgrades to bedroom furnishings, clothing, or medical costs not covered by MA. If any portion of the retroactive payment remains after the sixth month, it will be counted as income of the consumer. By not giving the two Mondale consumers the opportunity to spend the \$3,830, FC mishandled the consumer's funds. Based on 55 PA Code, Section 6210.94(d), cited above, FC should make restitution to those consumers.

3. The auditors also observed that consumers at the Willow Glen group home were charged a portion of the house television cable bill; and that a FLA consumer, RH, was charged for one half of his residence television cable bill. The cable services received at both homes would be considered basic cable service. The OMR has interpreted the definition of "room" under 55 PA Code, Chapter 6200 Room and Board Charges, Section 6200.3 to include basic cable costs. Therefore, the monthly assessment the consumer pays for room and board is to cover the consumer's share of the basic cable service and the consumer should not have to also pay for this service out of their personal funds. FC realized this is an error and stated they overlooked it. FC has an obligation to identify and reimburse their consumers for these charges.

Recommendations:

1. The BFO recommends that FC identify the ICF/MR consumers and the amount of the personal care allowance the consumers did not receive and pay the consumers the identified amounts.
2. The BFO also recommends that FC make restitution of \$3,830 to the two consumers that received the lump sum payments, and that FC makes restitution to all its consumers that have been inappropriately charged for basic cable service.
3. Additionally, the BFO recommends that FC contact OMR's Bureau of Mental Retardation Program Support to ensure the FC billing to OMR for the months affected by Recommendations 1 and 2 above are corrected.
4. Finally, the BFO recommends that FC base its room and board assessments for ICF/MR consumers on the CAO prepared PA-162s, and that FC revise its policies and procedures to reflect this change.

Results of Fieldwork (Continued)**B. Consumer Fund Administration and Management at the Agency Could Be Improved in Several Ways.****Resident Benefits**

Program regulations, specifically PA Code Title 55 Chapter 6200, Sections 17 and 18 require OMR provider agencies to assist clients apply for public assistance benefits. These benefits include food stamps, rent rebates, energy assistance and similar benefits. Applications are made through the appropriate County Assistance Office (CAO) and can reduce the Commonwealth's cost of care. The following deficiencies were noted regarding FC resident benefit administration:

- FC appropriately applied for food stamp benefits on behalf of the residents in their care. The monthly benefit amount was applied directly to food expense for each residence and the net amount reported for reimbursement. Although acceptable, this method of reporting food expense does not reflect the actual program expense for food purchases. The BFO encourages FC to record food stamp benefits as a revenue offset on the program invoice. This allows for a better analysis and comparison of food expense at each residence. It also clearly indicates which residents are receiving food stamp benefits.
- FC appropriately applied for rent rebates on behalf of eligible residents with the exception of LS clients and CLA residents residing in rented homes. These residents may be eligible to receive the \$650.00 Rent Rebate benefit. FC staff was unaware that these residents might be eligible and therefore did not file benefit applications on behalf of those residents.
- FC SIL clients may be eligible to receive LIHEAP energy assistance benefits. Although the BFO could not definitely establish resident eligibility, FC should apply for LIHEAP on behalf of their residents and record the results to establish their compliance with program regulations.

Recommendation:

1. The BFO recommends that FC assist residents to apply for all of the benefits they are entitled to receive. FC should consult with the appropriate CAO regarding client eligibility, document the application and record the results as evidence of regulatory compliance in this area.

Results of Fieldwork (Continued)

Policies and Procedures

As described above, the FC consumer fund P & P were generally found to comply with regulatory requirements. However BFO fieldwork indicated that they could be strengthened in several areas. This would generally require documenting or defining existing procedures that are already in use by FC staff. However, several areas require FC to evaluate and define areas not previously addressed. The following deficiencies are noted:

- The responsibilities of the RFC were not integrated into the P & P. Apparently the P & P have not been revised since the establishment of the position. Because this individual's primary purpose is to monitor staff implementation of the P & P the applicable duties should be described.
- The role of the Program Supervisor (PS) in consumer fund management was overstated compared with that observed in the field visits. The P & P describe the PS as the primary individual responsible for consumer fund monitoring when this responsibility lies with the RFC.
- The P & P for depositing client benefits and income are not described. Defining this policy is necessary because the BFO noted several instances where resident work income checks were not deposited in a timely manner. This generally occurs because residents are at work or unavailable during normal banking hours. Although FC staff attempt to accompany residents to the bank as a part of financial awareness, this may not always be possible. Therefore, valid exceptions to a policy of client participation should be defined in order to ensure work and other income is quickly deposited.
- The current process for establishing FC as the resident's RP and opening banking accounts is not described. This should include defining who is authorized to sign checks on behalf of residents and the name and specific language on the account such that the account complies with applicable RP regulations.
- The inventory control section does not adequately describe current procedures. The BFO found that the FC inventory control system provides excellent control over client possessions. However, the current system was not adequately documented in the consumer fund P & P.
- The R & B payment calculation and invoice procedure could be improved and is not sufficiently described. Although FC appropriately utilizes the R & B contract specified in the program regulations, they should include a description of any

Results of Fieldwork (Continued)

additional charges residents may incur on a contract addendum. This ensures residents and their parents or guardians are aware of the charges they will incur. Additional charges could include such items as: premium cable television charges, transportation expenses, telephone charges and miscellaneous charges. The procedure for calculating, distributing and paying the monthly R & B amount should be specified in the consumer fund P & P manual.

Recommendation:

The BFO recommends that FC amend and maintain their consumer fund P & P such that they address the omissions or suggested revisions described in the report. This includes the following revisions:

- Defining the responsibilities of the RFC.
- Ensuring that staff responsibilities are accurately reflected including the PS.
- Defining how resident expenses are recorded and documented. This should include complicated or unusual transactions. Staff should be aware who they should call for further clarification if needed.
- Defining the establishment of FC as client RP and opening banking accounts.
- Documenting the inventory control systems.
- Calculating and payment of resident R&B amounts and ensuring that resident monthly charges are fully disclosed on an addendum to the R & B contract.

Charitable Contribution Documentation

The 2001 BFO audit report recommended that FC develop and implement P& P for resident charitable contributions made to FC charities in order to prevent a conflict of interest. The P & P developed by FC satisfactorily address this issue. However, the FC charitable contribution policy indicates that written documentation of the clients desire to make charitable contributions to FC charities should be maintained, however written documentation was not available for any clients. FC could not explain their deviance from the policy. In one instance FC staff produced documentation that the client support team had authorized charitable contributions, however the required consumer signed documentation was not maintained. This indicates that the internal FC charitable donation policy is not being followed and should be amended or implemented as written.

Results of Fieldwork (Continued)

Recommendation:

The BFO recommends that FC comply with their policy requiring written documentation that a client willingly is making charitable contributions to any charities including those affiliated with FC.

Responsibility for Documenting Expenses

Multiple direct care staff at the CLA and ICF/MR residences are responsible for writing checks and recording and documenting transactions. This means that the ultimate responsibility for managing consumer funds in the residence is unclear. It also contributes to imprest system noncompliance because when a single direct care worker enters transactions incorrectly the resident ledger may be incorrect until the next RFC monitoring visit.

Recommendation:

The BFO recommends that FC ensure that House Supervisors are responsible for correctly balancing the client checkbooks, verifying receipts are present for transactions, ensuring cash counts are correct and ensuring compliance with FC P & P. Staff should maintain receipts for purchases made directly from the client checking account along with the bank statement. This should be verified by the House Supervisor when they complete the bank statement reconciliation. The RFC should be responsible for verifying and monitoring the work of the House Supervisor including verifying the appropriateness of expenses and documentation.

RFC Monitoring

The FC decision to utilize the RFC for consumer fund monitoring represents a significant, positive commitment to consumer fund monitoring. However, the effectiveness of the RFC could be enhanced by addressing the following areas:

- Only one staff member has been trained to perform the RFC duties. This means the tasks associated with that position may be delayed or not be completed in the event of her absence. The fact that the RFC job duties are not described in the consumer fund P & P could make it more difficult for another staff member to assume and complete the RFC responsibilities. The Director of Finance stated that he could assume the position temporarily. However, the BFO believes that this would only constitute a short term remedy and that another individual should be trained to assume the position. For example the FLA coordinator and the RFC could be cross trained to assume each others duties.

Results of Fieldwork (Continued)

- Several errors were noted on the RFC resident work income tracking spreadsheets. These included omissions and calculation mistakes. These could affect the ICF/MR client room and board calculation or affect resident benefit eligibility. The RFC could not explain the cause of these errors.
- The RFC did not adequately address inappropriate expenditures including Attends & Cold Medicine recorded in the client register. OMR regulatory interpretations indicate that these items are included in the residents' R & B payments and should not be purchased with resident funds. This indicates that some staff may be unaware of what constitutes legitimate resident expenses. It also indicates that the RFC is not reviewing transaction receipts completely. Since the RFC spends most of her time reconciling checking accounts and verifying expenses are documented with receipts, she has little time for transaction analysis. The RFC could spend more time analyzing individual transactions if she verified a reconciliation completed by the House Supervisor. FC staff stated that direct care workers do not have enough time to reconcile bank statements.
- FC staff that would benefit from reinforcement of consumer fund P & P do not receive additional monitoring or training. This means that overall procedural compliance at FC will remain inconsistent because RFC monitoring does not include training staff at the homes with deficient record keeping.
- The monitoring report does not adequately convey the results of consumer fund monitoring and staff procedural compliance at each home. The report indicates the cash balance but not significant problems observed during monitoring including: improper imprest compliance, improper expenses and questions about how to enter specific transaction that could affect all staff.

Recommendation:

The BFO recommends that FC implement the following items relating to the RFC position and responsibilities:

- Train another FC staff member to assume the RFC responsibilities in her absence. Additionally the RFC should document and maintain the P & P requirements of her position. This should include how often each facility or client is reviewed, bank statement reconciliation procedures, receipt documentation standards, imprest ledger review, cash counts, monitoring report completion and routing.
- Ensure resident paychecks are correctly recorded on the tracking spreadsheet.

Results of Fieldwork (Continued)

- Develop, document and maintain P & P for unusual or special transactions that may affect the imprested balance. Applicable FC staff should be trained regarding the proper method of executing these transactions. All staff should be trained to identify what constitutes legitimate expenses. Any procedural deviation or inappropriately incurred expense should be noted on the monitoring report.
- Adopt a more flexible schedule of home visits. The RFC should spend additional time at residences with weak procedural implementation. Staff at these homes should receive additional training in order to ensure they are satisfactorily documenting client transactions and performing statement reconciliations.
- The RFC monitoring report should describe the procedural compliance of each House Supervisor such that the executive staff has an accurate picture of what procedural lapses have occurred.

Consumer Fund Activities at FLA Residences

Consumer fund oversight of the FLA residents is organizationally separated from the rest of FC. The FLA provider families use different P & P and are not monitored by the RFC. For example, FLA providers are not required to use the imprest system of cash management for their consumer's petty cash accounts.

The records of one of the two FLA providers reviewed by the BFO were incomplete and contained many errors. This indicates that the consumer fund procedures and monitoring in effect for these residents provides a lower level of control and a higher risk for misuse than that other FC residences. The BFO believes FC is obligated to provide the same level of fiduciary responsibility to the FLA residents as it does to other residents.

Recommendation:

The BFO recommends that FC require its FLA providers comply with the consumer fund P & P that apply to other residents. This includes adopting the imprest system of cash management. FC should ensure that the consumer funds at the FLA homes receive the same level of monitoring as other FC residences.

Results of Fieldwork (Continued)**C. Consumer Fund Management Could Be Strengthened by Correcting Deviations from Established Policy and Procedure**

The auditor's review of consumers' petty cash and checkbook ledgers, and maintenance of bank statements and receipts revealed practices that deviated, or appeared to deviate from the consumer fund policies and procedures established by FC. FC should investigate the underlying cause of the following practices and implement corrective action to ensure that all residential homes under its umbrella of responsibility consistently adhere to the consumer fund policies and procedures:

1. 18 of 60, or 30% of community living and ICF/MR resident petty cash ledgers were not maintained using the imprest system of cash management in accordance with the FC Policies and Procedures. This was caused by staff uncertainty regarding the proper way to record certain deposits and other transactions under the imprest system. The RFC could not explain why it was not corrected. This oversight was not noted on the internal consumer fund monitoring report distributed to executive management. The risk of misuse of funds is increased because the control feature of the imprest system is missing. If certain transactions are causing the problem, the RFC should research and determine the proper recording of those transactions and communicate the desired actions to all house managers.
2. Receipts were not maintained for all purchases over \$15 as required by 6400.22 regulations. In addition, receipts were not consistently maintained with the bank statements in an orderly fashion. Because cash ledger expenses were generally more thoroughly documented, this indicates that House Supervisors did not consistently verify that checking account purchases were properly documented. Checking account transactions should be properly documented with receipts and maintained with bank statements because client checking account balances may exceed several thousand dollars and represent a high risk area for abuse or misappropriation. This deficiency should have been addressed during the RFC monitoring to ensure consistent application of procedures across all homes.
3. Numerous corrections and adjustments were made to checkbook balances as a result of the RFC monitoring. These adjustments would be unnecessary if staff promptly and properly recorded all checkbook transactions. The expectation of FC staff is that the responsibility for keeping accurate records lies with the RFC and that she will correct any errors on their behalf. Because of the additional work necessary to correct the checkbook ledger the RFC has less time to perform other necessary tasks. This would include verifying receipts are present and appropriate, and follow-up with staff that needed additional training.

Results of Fieldwork (Continued)

4. From the resident ledgers reviewed, the auditors observed that consumer work income was not promptly deposited in checking accounts. This concern was previously noted on page 9, but deserves mentioning again. In some instances deposits were delayed for two weeks. This increases the risk that these checks will be lost or misappropriated. Additionally, it complicates the completion of the RFC consumer fund monitoring spreadsheet and could affect the client room and board calculation. FC stated that it was difficult to schedule time to take clients to the bank in order to make deposits. The BFO understands the importance of having the consumers participate in all aspects of the management of their finances; we believe it should be a priority to promptly deposit the consumer's checks.
5. While not a deviation from policy and procedure, at least one resident purchases meals for other residents including the FC staff approximately once every month. Although FC staff stated that these purchases occurred voluntary, it introduces the possibility of abuse, or an appearance of a conflict of interest. The BFO recognizes that it is difficult to reconcile allowing residents to make reasonable purchases with their own funds and responsibly monitoring their best interests, yet the BFO believes additional disclosure is necessary in these instances to protect FC staff from an appearance of impropriety.

Recommendations:

1. The BFO recommends that the RFC identify the type of transactions that cause deviations to the imprest system of cash management, then research and determine the proper recording of those transactions. The results of the research should be documented in the P & P to establish management's expectations. Applicable FC staff should also be trained regarding the proper method of entering these transactions within the FC consumer fund system. All staff should be aware of what constitutes legitimate expenses. Any procedural deviation or disallowed expense should be noted on the monthly monitoring report.
2. The BFO also recommends that House Supervisors be responsible for balancing the client checkbooks, verifying receipts are present for transactions and cash counts are correct. Staff should maintain receipts for purchases, especially those of \$15 and greater. This should be verified by the House Supervisor when they complete the bank statement reconciliation. The RFC should be responsible for verifying and monitoring the work of the House Supervisor including verifying the appropriateness of expenses and documentation.
3. The BFO also recommends that consumer checks for work income be deposited on a timelier basis, such as one week.

Results of Fieldwork (Continued)

4. The BFO finally recommends that FC amend their contribution policy section to include the circumstances under which residents may make purchases on behalf of other FC residents or staff.

Observation: FC Residents are Using Personal Funds to Pay for Dental Care

The BFO noted several instances where FC residents used their own funds to purchase dental services. These costs can be significant. As an example, one consumer paid \$336 of his own funds for dental care. We were told this is because very few dentists that accept the MA rate were available in the area. This represents an unnecessary use of client funds because these clients are eligible to receive dental services through the MA program. FC staff stated that they have transported residents to York city and Philadelphia in order to have services provided by dentists that accept the MA rate. It is the BFO's understanding that dentists' participation under the MA fee structure is not only an issue within Lancaster County but throughout Pennsylvania. We bring this issue to OMR's attention for future discussion.

As noted, a closing conference was held with the FC staff on November 6, 2006 to discuss the issues contained in this report. It was mutually agreed that an exit conference was not warranted. The response from FC is attached and labeled as Appendix A.

In accordance with our established procedures, please provide a response within 60 days to the Audit Resolution Section concerning actions to be taken to ensure the report recommendations are implemented.

If you have any further questions concerning this audit or if we can be of any further assistance in this matter, please contact Richard Polek of the Audit Resolution Section at (717) 787-8890.

Sincerely



John H. Bungo, CGFM, CFS

Cc: Mr. Stoltzfus
Ms. McCool/Mr. Witt
Ms. Deans
Mr. Laughman/Mr. Symons

Auditee Response

**FC Response to
BFO Audit of
October, 2006**

Issue No. 1: Improvements to FC's Consumer Fund Policies, Procedures and Systems Can Be Made.

A. Restitution by FC is Needed to Resolve Several Instances of Handling of Consumer Funds

1. Friendship Community will identify and make restitution to all ICF/MR residents for shortages in their personal care allowance. Restitution will be retroactive to March 1, 2005 when the personal care allowance was increased from \$30 per month to \$40 per month.

Date of Restitution will be by 3/16/07.

2. Friendship will make restitution to the two residents of the Mondale ICF/MR who received lump sum payments of \$1,915 in April, 2006 from Social Security. Friendship will also develop policy and procedures which state the proper methodology for handling such payments in the future.

Date of Restitution will be by 3/16/07.

3. Friendship has made restitution as of 12/6/07 to residents of the community home on Willow Glenn Drive, Lancaster resulting from an oversight in charging them for a portion of the house cable TV bill. Lifesharing resident [REDACTED] will be reimbursed for his payment of one half of the household cable TV bill by 3/16/07.
4. Friendship Community will base its room and board assessments for ICF/MR residents on the CAO prepared PA-162s and will revise policies and procedures accordingly.

B. Consumer Fund Administration and Management at the Agency Could Be Improved in Several Ways

1. Friendship has worked diligently to ensure residents receive all benefits for which they are eligible and is appreciative of being made aware of additional programs which are available to its residents. Friendship will consult with the Lancaster County Assistance Office regarding eligibility for various programs, document the application and record the results as evidence of regulatory compliance in this area.
2. Friendship Community agrees that the responsibilities of the RFC need to be defined in policy. Friendship further agrees that the responsibilities of all staff involved in consumer fund management need to be clearly and accurately reflected in its

- policies. Steps are being taken to implement these recommendations.
3. Staff involved in consumer fund management will be provided with written and verbal guidance on how to record and document resident expenses, including complicated or unusual transactions.
 4. Policies which define the establishment of Friendship Community as the Representative Payee for residents and opening bank accounts will be developed.
 5. Inventory policies will be updated to better reflect current practices.
 6. Friendship Community will include a description of the R & B payment calculation and invoice procedure in its policies. The revised policies will include the use of a contract addendum to describe additional charges to the resident.
 7. Friendship Community will provide training to program staff on policies governing charitable contributions by residents.
 8. Although Friendship Community understands the reasoning behind the BFO recommendation that Program Supervisors be responsible for correctly balancing resident checkbooks, this is not viable as a practical matter due to the workload which the Supervisors already carry.
 9. Friendship Community will work with Program Supervisors to ensure they ensure that receipts are present for all transactions, the accuracy of cash counts and ensuring compliance with policy and procedure. These are functions which they currently perform.
 10. The Director of Finance would take over the duties of the RFC in the event of an unplanned absence of more than one week. If the absence extended beyond the mandatory FMLA time frame, and if Friendship Community needed to replace the RFC, the Director of Finance would train the new RFC.
 11. The Director of Finance and the RFC will work together to document the P&P of the RFC position including how often each facility or client is reviewed, bank reconciliation procedures, receipt documentation standards, imprest ledger review, cash counts, monitoring report completion and routing.
 12. A member of the Finance Department other than the RFC will do a quarterly review of the resident work income tracking spreadsheets by tracing the pay stubs into the spreadsheets for at least 10% of the residents per month and rotating residents so that all residents would be covered at least once during a year. If error rate stays at zero for a year, the frequency and extensiveness of the review will be re-evaluated.
 13. A P&P will be developed for unusual or special transactions that may affect the imprest balance and staff will be trained how to handle anticipated transactions and to ask the RFC or Director of

Finance if there is an unanticipated transaction. Deviations or inappropriate expenses will be noted on the monitoring report.

14. RFC will allow more time for homes with weak procedural implementation.
15. RFC monitoring report will be expanded in the area of reporting procedural compliance or noncompliance.
16. Friendship is in the process of strengthening its monitoring of Lifesharing homes. Implementation of the Imprest system in these homes will not occur at this time. If increased monitoring is ineffective, this may be reconsidered.

C. Consumer Fund Management Could Be Strengthened by Correcting Deviations from Established Policy and Procedure

1. This is the same as B 13 above.
2. As stated in B8 above, requiring Program Supervisors to balance the residents' checkbooks is not viable given the myriad duties for which they are already responsible. However, Program Supervisors will continue to be responsible for verifying receipts for all purchases and accurate cash counts.
3. Friendship Community agrees with BFO's recommendation that consumer checks be deposited within one week of receipt. Policies reflecting that will be developed and training provided.
4. Friendship Community will amend its consumer fund policies to include the circumstances under which residents may make purchases on behalf of other Friendship Community residents or staff.

Friendship Community appreciates BFO's inclusion of its observation that several residents are using personal funds to pay for dental care. Since BFO's fieldwork was completed, additional difficulties have been encountered in securing dental care for people using MA. Gateway Medicare Assured no longer pays for dental services. This affects several of our residents. Friendship Community staff have called dentists on the list provided by the assistance office. None of those dentists currently accept MA. **This is an issue which is long overdue for fair and adequate resolution by the Department of Public Welfare.**