



Office of the City Auditor

CONSENT CALENDAR  
December 15, 2009

To: Honorable Mayor and Members of the City Council  
 From: Ann-Marie Hogan, City Auditor  
 Subject: Audit – Mental Health Adult Clinic Surprise Cash Count: Client Funds Could Be Lost, Stolen, or Misused

RECOMMENDATION

Request the City Manager to report back during or before June 2010 on the implementation status of each of the City Auditor's recommendations in the attached report. Report back no later than every six months, thereafter, until all recommendations have been fully implemented.

SUMMARY

A performance audit was conducted to determine if client cash was present and accounted for at the Mental Health Adult Clinic at the time of our surprise cash count. As a sub-objective, we documented client cash handling internal control weaknesses that came to our attention.

Due to poor record keeping, a surprise cash count could not be completed. The Department of Health Services was unable to provide evidence that all client cash was present and accounted for at the time of our site visit. Additionally, the Department of Health Services lacks an adequate internal control system to safeguard client funds, and needs to strengthen its internal control procedures to protect client information. Auditors found:

- Management has not clarified their expectations by establishing and implementing formal, written, internal cash handling and client funds management policies and procedures. (Finding 2)
- Management allows case managers to follow a number of cash-handling practices that increase the risk of theft, loss, or misuse of client funds. (Finding 2)
- Supervisors do not perform secondary reviews of client dispersals and spending plans. (Finding 2)
- Management's description of procedures differed from actual practices. (Finding 2)
- It appears that case managers could cash their client's allowance check without the client's knowledge. (Finding 2)
- The Department of Health Services entered into an unauthorized agreement. (Finding 3)
- The Department of Health Services could not account for eight out of ten moneybags used to hold client cash at the time of the site visit. (Finding 4)

FISCAL IMPACTS OF RECOMMENDATION

An estimated \$279,000 of client funds are at risk of theft, loss, or misuse. According to the Department of Health Services, the average monthly Supplemental Security Income for a mental health client is approximately \$800.

The potential damage to the City's reputation cannot be measured in dollars.

RATIONALE FOR RECOMMENDATION

Implementing our recommendations will reduce the risk of theft, loss, or misuse of client funds.

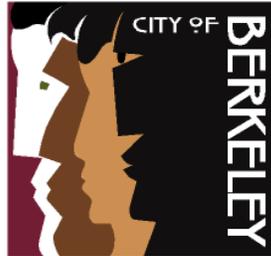
CONTACT PERSON

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Attachments:

- 1: Audit – Mental Health Adult Clinic Surprise Cash Count: Client Funds Could Be Lost, Stolen, or Misused

# City of Berkeley



## **Mental Health Adult Clinic Surprise Cash Count: Client Funds Could Be Lost, Stolen, or Misused**

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Presented to Council December 15, 2009

**Mental Health Adult Clinic Surprise Cash Count:  
Client Funds Could Be Lost, Stolen, or Misused**

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## I. Executive Summary

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### **Mental Health staff and management want to help their clients, but management has not taken adequate steps to safeguard client funds.**

An estimated \$279,000 of client funds are at risk of theft, loss, or misuse.

Due to poor record keeping, a surprise cash count could not be completed at the Mental Health Adult Clinic. The Department of Health Services was unable to provide evidence that all client cash was present and accounted for at the time of the site visit.

Mental Health Adult Clinic staff are committed to improving their clients' quality of life. Staff may assist clients in managing their Supplemental Security Income with only the best intentions, but management has not established adequate oversight. Result: Client funds are at risk of theft, loss, or misuse.

### Weak Control Environment

Client funds are not properly safeguarded.

Department of Health Services management has not established an adequate internal control system for handling client funds.

- There are no internal written policies and procedures. (Finding 2)
- Case managers keep client cash and checks in file folders, not in a locked safe. (Finding 2)
- Access to client funds is not adequately restricted. (Finding 2)
- Supervisors do not perform secondary reviews of client dispersals and spending plans. (Finding 2)
- Management's description of procedures differed from actual practices. (Finding 2)

### City's Reputation at Risk

Simple controls will strengthen public confidence.

There is an inherent risk in managing someone else's money. It takes only one accusation of theft, real or perceived, to damage the City's reputation. Simple and effective controls will help safeguard client funds and strengthen public confidence in government.

## II. Audit Objectives and Results

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### Objectives

Our objective was to perform a surprise cash count and determine if client cash<sup>1</sup> was present and accounted for at the Mental Health Adult Clinic<sup>2</sup>.

As a sub-objective, we documented client cash handling internal control weaknesses that came to our attention.

### Results

The Mental Health Adult Clinic does not maintain a master cash-receipts journal. Result: the Department of Health Services<sup>3</sup> was unable to provide evidence that client funds were present and accounted for at the time of the site visit. (Finding 1)

The Department of Health Services does not have an adequate management control system to safeguard client funds. (Finding 2)  
Auditors found:

Simple internal controls will help:

- Safeguard client funds
- Protect City employees
- Detect errors or fraud

- Management has not clarified their expectations by establishing and implementing formal, written, internal cash handling and client funds management policies and procedures. (Finding 2)
- Management allows case managers to follow a number of cash-handling practices that increase the risk of theft, loss, or misuse of client funds. (Finding 2)
- Supervisors do not perform secondary reviews of client dispersals and spending plans. (Finding 2)
- Management's description of procedures differed from actual practices. (Finding 2)
- It appears case managers could cash their client's allowance check without the client's knowledge. (Finding 2)
- The Department of Health Services entered into an unauthorized agreement. (Finding 3)
- The Department of Health Services could not account for eight out of ten moneybags used to hold client cash at the time of the site visit. (Finding 4)
- The Department of Health Services' internal controls over protected client information need to be strengthened. (Finding 5)

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<sup>1</sup> Client cash includes Supplemental Security Income checks.

<sup>2</sup> The Clinic is located at 2640 Martin Luther King Jr. Way, Berkeley, CA 94704.

<sup>3</sup> Formerly, the Department of Health and Human Services.

### III. Auditee Accomplishments

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The Department of Health Services reported the following accomplishments. The Department:

- Utilized grant funding to establish a new health clinic at the Berkeley Technology Academy, providing on-site medical services, health education, and mental health services to students.
- Introduced Family Advocacy services to increase family participation in service planning and provide appropriate support for mentally ill adults, children, and youth.
- Provided new homeless outreach and engagement services through the “Public Commons for Everyone” initiative by working with community partners to secure housing for several high-risk homeless individuals.
- Implemented targeted interventions to reduce disparities in access to clinic-based mental health services for Latinos.
- Completed implementation of County Detox and Sobering Station facilities.

### IV. Background

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#### The Clinic

The City of Berkeley’s Mental Health Adult Clinic (Clinic) provides mental health prevention and intervention services to high-risk, severely mentally ill adults and their families. The Department of Health Services’ Mental Health Services Division operates the Clinic.

#### Money Management Activities

According to the Department of Health Services, a majority of clients seen at the Clinic receive Supplemental Security Income from the Social Security Administration. Approximately 30% of these clients are considered by the Social Security Administration to be incapable of managing their Supplemental Security Income. Therefore, they require the services of a representative payee<sup>4</sup>. A representative payee is responsible for preparing budgets, paying bills, keeping payment records, and communicating with the Social Security Administration.

Some clients need help managing their money.

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<sup>4</sup> A representative payee must be approved by the Social Security Administration, and may be a friend, relative, other member of the community, or a social agency.

If a client is unable to get a friend, family member, or community member to act as their representative payee, the client's case manager refers the client to the Alameda County Behavioral Health Care Services Agency (County). The County has a Substitute Payee Program designed to provide representative payee services. However, the County requires an intermediary to work directly with the Supplemental Security Income recipient. Berkeley Mental Health case managers act as the intermediary<sup>5</sup> for their clients. Before a case manager may provide substitute-payee services, they are required to attend training administered by the County.

Case managers are responsible for determining their clients' needs, and authorizing and disbursing payments for their clients' use and welfare. Case managers communicate their clients' needs to the County and the County issues the checks to, or for, the clients.

Case managers try to prevent their clients from buying alcohol and drugs.

After day-to-day needs are met, a client may receive a spending allowance. To help prevent certain clients from purchasing drugs, alcohol, or other items considered harmful, case managers attempt to monitor those clients' allowances. Most allowance checks range between \$5 and \$100. Some clients pick up their spending allowance checks from the Clinic during their regular visits. If the client is unable to pick up their check, they may have someone else pick it up on their behalf.

### Cash Gifts and Inheritances

Some clients receive gifts of cash, usually from a parent. The money is given to a Clinic staff member and the case manager will give the cash to their client during their client's next appointment. In addition to cash gifts, a client may receive an inheritance. Inheritance checks can be for as much as \$3,000 and earmarked for a specific purpose, for example, to purchase furniture.

“About 6.5 million recipients of Social Security and Supplemental Income benefits must have help managing their money. Since Fiscal Year 1998, The Social Security Administration Office of the Inspector General (OIG) has investigated 1,352 representative payee cases, leading to 313 convictions and identification of fraud losses totaling over \$7,500,000.” – ElderWeb

Excerpt from [Senate Investigates Social Security Representative Payee Fraud](#) (May 2000) by Karen Stevenson. Article is available online at <http://www.elderweb.com/home/node/1072>

<sup>5</sup> An arrangement as an intermediary does not mean the Social Security Administration has approved the Clinic or Clinic staff as a representative payee.

## V. Findings and Recommendations

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**Finding 1: The Department of Health Services was unable to provide evidence that all client cash was present and accounted for at the time of the surprise cash count.**

Health Services was unable to provide evidence that all client cash was present and accounted for.

Due to poor record keeping, a surprise cash count<sup>6</sup> could not be completed at the Mental Health Adult Clinic. The Department of Health Services was unable to provide evidence that all client cash was present and accounted for at the time of the site visit.

The Department of Health Services does not use a master cash-receipts journal to record client funds. Instead, transactions are recorded using client specific check logs, and kept in individual client files. The Department of Health Services' record keeping method prevents management from easily identifying and accounting for client cash and checks, and increases the risk of unauthorized transactions. Because of the protected health information in the client files, this method also prevents third-party reviewers from performing cash counts.

### ***City Manager's Response to Finding***

*Agree*

### **Recommendation**

- 1.1 Record all client funds transactions in a master cash-receipts journal. Consider using assigned account numbers instead of client names to record client transactions. Reconcile the journal, monthly.

### ***City Manager's Response to the Recommendation***

*The Department of Health Services agrees with the recommendation. Over the next several weeks, staff will be assessing the current practices being utilized in order to identify areas of weakness and developing a plan for maintaining a system of strong internal controls over the cash handling operations. The plan will include ensuring that staff who handle cash are properly trained, that staff have written policies and procedures to provide guidance for them, and that there are mechanisms to ensure that the policies and procedures are followed by staff and their supervisors who handle cash. The plan will be completed by November 30, 2009 and forwarded to Finance for review. This recommendation will be fully implemented by February 1, 2010.*

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<sup>6</sup> Per Administrative Regulation 3.20, Finance and Audit will perform surprise cash counts at City cash handling sites.

**Finding 2: The Department of Health Services has not established an adequate internal control system for managing and handling client funds.**

The Department of Health Services management has not established an adequate internal control system for managing and handling client funds. This results in significant non-compliance with the City's cash handling policy and guidelines<sup>7</sup>:

Written procedures lead to consistent performance.

No Internal Policies and Procedures

- a. The Department of Health Services has not established and implemented formal, written, internal cash handling and client-funds management policies and procedures. Result: Risky cash-handling practices that could result in loss, theft, or misuse of client funds, and damage to the City's reputation.

Risky Practices

- b. Case managers keep their clients' cash and checks in individual client folders that include protected health information. These folders are stored in filing cabinets that remain unlocked during business hours. A number of staff can access the cabinets.
- c. Case managers track the balances of client allowances using informal notes. In some cases, case managers do not track the balances at all.
- d. Case managers do not always provide receipts to family and friends that drop off cash at the Clinic for client use.
- e. Case managers used their personal bank accounts to cash client checks.
- f. A case manager served as his client's representative payee even though the Department of Health Services Director stated, "neither the agency nor treating clinician shall serve as a representative payee."<sup>8</sup>
- g. Case managers loan money to clients and then receive Supplemental Security Income checks made payable to the case manager. According to the Department of Health Services Director, these loans are "strongly discouraged."

Case managers are following a number of risky practices.

<sup>7</sup> [Administrative Regulation 3.20 policy and 10 Basic Principles of Cash Handling.](#)

<sup>8</sup> According to the Department of Health Services Director, this is the Mental Health Division's policy. However, the Division does not have formal, written, internal policies and procedures.

### Case Managers Could Cash Their Client's Allowance Check

It appears client checks could be cashed without the client's knowledge.

- h. Staff made an oral arrangement with a local mini-mart to cash allowance checks<sup>9</sup>. A case manager's relationship with both their client and the storeowner makes it possible for the case manager to cash their client's check with or without the client's knowledge. No evidence was found to indicate that this had occurred; however, the risk exists. For example, a client's disruptive behavior could lead to their ban from the store. It appears a storeowner's familiarity with that client's case manager could lead him to feel comfortable cashing a client's check with only the case manager present.

### Lack of Supervisory and Management Oversight

- i. Supervisors do not perform secondary reviews of client dispersals and spending plans.

### Management's description of procedures differed from actual practices.

- j. Management stated that case managers have a small support role in helping clients budget their Supplemental Security Income. Actual practices involve creating client budgets and handling dispersals.
- k. Management initially stated that allowance checks are "sometimes" made payable to Berkeley Mental Health (BMH). He later stated that these checks are "never made" payable to BMH.

The City Manager's policy of strong cash-handling internal controls applies to all cash handling performed as part of employee work duties. The department's lack of an adequate internal control system for managing and handling client funds increases the likelihood that client funds will be lost, stolen, or misused. It also places the City's reputation at risk. Current practices provide the City little support to defend itself against accusations of theft, real or perceived.

### ***City Manager's Response to Finding***

*Agree*

### **Recommendation**

- 2.1 Develop a management control system and convey its requirements to staff.

<sup>9</sup> After needs for food and shelter are met, clients may receive an allowance. The allowance may be used for dental and health care (not covered by insurance), clothing, recreation, etc.

### **City Manager's Response to the Recommendation**

*The Department of Health Services agrees with the recommendation. As of September 2008, Mental Health discontinued the practices identified in c, d, and e above. Also as of September 2008, item b is partially implemented. Client checks are now kept in client medical files in the medical records room, which is staffed by administrative personnel and is more secure. Spending allowances are still kept in the client files. As of March 2009, the case manager referred to in f above ceased serving as a representative payee for his client. Mental Health now requires clinical staff to refer clients to Alameda County for enrollment in their Substitute Payee Program. As part of the project to improve controls over the cash handling operations in Mental Health, the Administrative and Financial Support Unit will augment the requirements of the Substitute Payee Program by establishing new internal guidelines for case managers in handling clients' spending allowance checks. The plan will be completed by November 30, 2009 and forwarded to Finance for review. This recommendation will be fully implemented by February 1, 2010.*

### **Auditor's Disposition**

The Department of Health Services must discontinue the practice of comingling client cash and checks in files containing protected health information to ensure that third parties can perform surprise cash counts without restrictions. The Department of Health Services should incorporate this into their plan for maintaining a system of strong internal controls over the cash handling operations scheduled for completion November 30, 2009.

### **Finding 3: The Department of Health Services entered into an unauthorized agreement.**

Agreements made on behalf of the City should be authorized and executed only by persons acting within the scope of their authority.

The Department of Health Services did not follow required City policies when executing a Memorandum of Understanding (MOU) between the Berkeley Mental Health Division and the Berkeley Food & Housing Project. The City Charter states that "all contracts must be... executed in the name of the City of Berkeley by an officer... authorized to sign the same." That authority belongs to the City Manager, or his designee<sup>10</sup>. The Charter also states that "all contracts... be drawn under the supervision of the City Attorney." The Memorandum of Understanding was not executed in the City's name or signed by the City Manager, and there is no evidence of City Attorney supervision.

<sup>10</sup> The City Manager has not designated Department of Health Services' management or staff to sign or execute contracts.

Council, City Manager, and City Attorney approval and supervision help ensure alignment with City objectives, verify available funds, and safeguard City assets. Without these approvals, it is uncertain whether this agreement is in the City's best interest.

***City Manager's Response to Finding***

*Agree*

**Recommendation**

- 3.1 Execute a Memorandum of Understanding that is between the City of Berkeley and Berkeley Food and Housing Project. Follow the appropriate contract procedures to obtain City Attorney review and City Manager authorization.

***City Manager's Response to the Recommendation***

*The Department of Health Services agrees with the recommendation. The Memorandum of Understanding is currently being reviewed and updated. Once this process has been completed, the revised MOU will be processed in accordance with the City's established contract procedures. Recommendation will be implemented by February 2010.*

**Finding 4: The Department of Health Services could not account for eight moneybags used to hold client cash at the time of the site visit.**

The Department of Health Services assigned ten moneybags, one to each case manager, to safeguard client cash. Management could not account for eight of the moneybags at the time of the surprise cash count.

8 out of 10 moneybags could not be located.

Case managers are required to keep their assigned moneybag in a locked safe accessible by two senior staff. Only two moneybags were in the safe. The Department of Health Services did not know why all 10 moneybags were not in the safe at the time of the surprise cash count. Therefore, it could not be determined if the moneybags were lost, stolen, or misplaced; or whether the moneybags contained client cash.

***City Manager's Response to Finding***

*Agree*

## Recommendations

- 4.1 Locate the eight moneybags or identify them as missing. Perform a reconciliation to determine whether they contain client cash.

### ***City Manager's Response to the Recommendation***

*The Department of Health Services agrees with the recommendation. Mental Health conducted a thorough search of the clinic and identified and accounted for all cash, checks, and moneybags. The cash and checks, except for spending allowances, were turned over to the Berkeley Food and Housing Project as part of its contract with the City to provide third-party administrative and fiscal services to specified clients referred by Mental Health. Recommendation was implemented in September 2008.*

- 4.2 Require case managers to use the moneybags to store client cash and checks. Ensure that all moneybags are locked in the safe and require case managers to sign the moneybags in and out of the safe.

### ***City Manager's Response to the Recommendation***

*The Department of Health Services agrees and implemented an alternative: Moneybags are no longer used to store client checks and cash. Mental Health discontinued the practice of allowing case managers to handle clients' funds, except for allowance checks issued through the Sub-Payee Program. The alternative was implemented in September 2008.*

## **Finding 5: The Department of Health Services' internal controls over protected client information need to be strengthened.**

The Department of Health Services does not have a system of using client identification numbers to record cash receipt transactions in the citywide financial system.

Improved controls are needed to protect client information.

The Health Insurance Portability and Accountability Act (HIPAA) requires the protection of individually identifiable health information and sets limits on who may look at this information. Without adequate procedures, staff could inadvertently disclose protected client information. Violation of HIPAA could result in monetary penalties of \$100 per failure to comply, or criminal penalties of \$50,000 and up to one-year imprisonment.

### ***City Manager's Response to Finding***

*Agree*

### **Recommendations**

- 5.1 Improve internal control procedures for protecting client information in accordance with the Health Insurance Portability and Accountability Act that include using identification numbers to record cash receipts in the citywide financial system. Train staff to help ensure compliance with the procedures.

### ***City Manager's Response to the Recommendation***

*The Department of Health Services agrees with the recommendation. Recommendation will be fully implemented by December 31, 2009.*

## **VI. Fiscal Impact**

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An estimated \$279,000 of client funds are at risk of theft, loss, or misuse. According to the Department of Health Services, the average monthly Supplemental Security Income for a mental health client is approximately \$800. Losing even small dollar amounts has a big impact on someone of limited means.

Loss of public confidence in government cannot be measured in dollars.

The Association of Certified Fraud Examiners<sup>11</sup> estimates that seven percent of annual revenues are lost to fraud. Although no evidence of actual fraud or abuse was found, applying the seven percent to the estimated client funds managed at the Mental Health Adult Clinic infers a possible loss of \$18,000.

Implementing our recommendations will reduce the risk of theft, loss, or misuse of client funds. The potential damage to the City's reputation is immeasurable.

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<sup>11</sup> Source: "[2008 ACFE Report to the Nation on Occupational Fraud & Abuse](#)" Retrieved online September 2, 2009.

## VII. Conclusion

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People with mental illnesses are often victims of fraud, theft, and their own poor judgment.

According to the Department of Health Services, 30% of the clients seen at the Clinic are incapable of managing their Supplemental Security Income. As a result, they must rely on their case manager to help manage their money. This is a very vulnerable position: The person providing the client's mental health counseling is also managing and controlling the client's money.

Auditors found a number of control weaknesses over cash management. The Department of Health Services:

- Was unable to provide evidence that all client cash was present and accounted for at the time of the surprise cash count. (Finding 1)
- Has not established an adequate control system for managing and handling client funds. (Finding 2)
- Entered into an unauthorized agreement. (Finding 3)
- Could not account for eight moneybags used to hold client cash at the time of the site visit. (Finding 4)
- Needs to strengthen its internal controls over protected client information. (Finding 5)

Client funds are at risk of theft, loss, or misuse while the concerns identified in this audit continue. Health Insurance Portability and Accountability Act violations could result in monetary or criminal penalties. Unauthorized agreements may not properly safeguard the City or properly use its assets.

There is an inherent risk in handling a mentally ill person's money.

The City's reputation is also at risk. Current practices and poor record keeping make it difficult for the City to defend itself against accusations of theft, real or perceived.

## Appendix A

### Scope and Methodology

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We performed a site visit at the Berkeley Mental Health Adult Clinic (Clinic) on August 29, 2008. The purpose of the site visit was to determine if client money held at the Clinic agreed with summary records and reports. Due to the poor record keeping methods, we could not complete our surprise cash count.

We asked questions about cash handling and accountability practices. We reviewed documentation and letters describing the Clinic's money management activities, and C.A.R.E loans and loan repayments. A number of practices came to our attention that result in weak internal controls or non-compliance with City policies. These practices resulted in the findings in this report. We did not conduct a comprehensive evaluation of internal controls over cash handling, or perform detailed tests of compliance with the City's cash handling policies.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards (GAGAS)*. Those standards require that we plan and perform our audit to obtain sufficient and appropriate evidence that provides a reasonable basis for our findings and conclusions, based on our audit objectives. We believe that the evidence obtained provides reasonable basis for our findings and conclusions, based on our audit objectives.

This performance audit was initiated by the Auditor's Office and scheduled as part of the fiscal year 2009 Audit Plan. The 2009 Audit Plan was presented to Council on June 24, 2008. We began audit work on August 29, 2008 and issued our final report on December 15, 2009. Long delays in receiving requested information from the Department of Health Services, as well as the receipt of incomplete and conflicting information, prevented the timely issuance of this report.

