

PERFORMANCE AUDIT REPORT

Property Controls at Topeka State Hospital

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
January 1986**

Legislative Post Audit Committee

Legislative Division of Post Audit

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LEGISLATIVE DIVISION OF POST AUDIT

Suite 301, Mills Building
Topeka, Kansas 66612-1285
Telephone (913) 296-3792
FAX (913) 296-4482

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PERFORMANCE AUDIT REPORT

Property Controls at Topeka State Hospital

OBTAINING AUDIT INFORMATION

This audit was conducted by Randy Tongier, Financial-Compliance Audit Manager, of the Division's staff. If you need any additional information about the audit's findings, please contact Mr. Tongier at the Division's offices.

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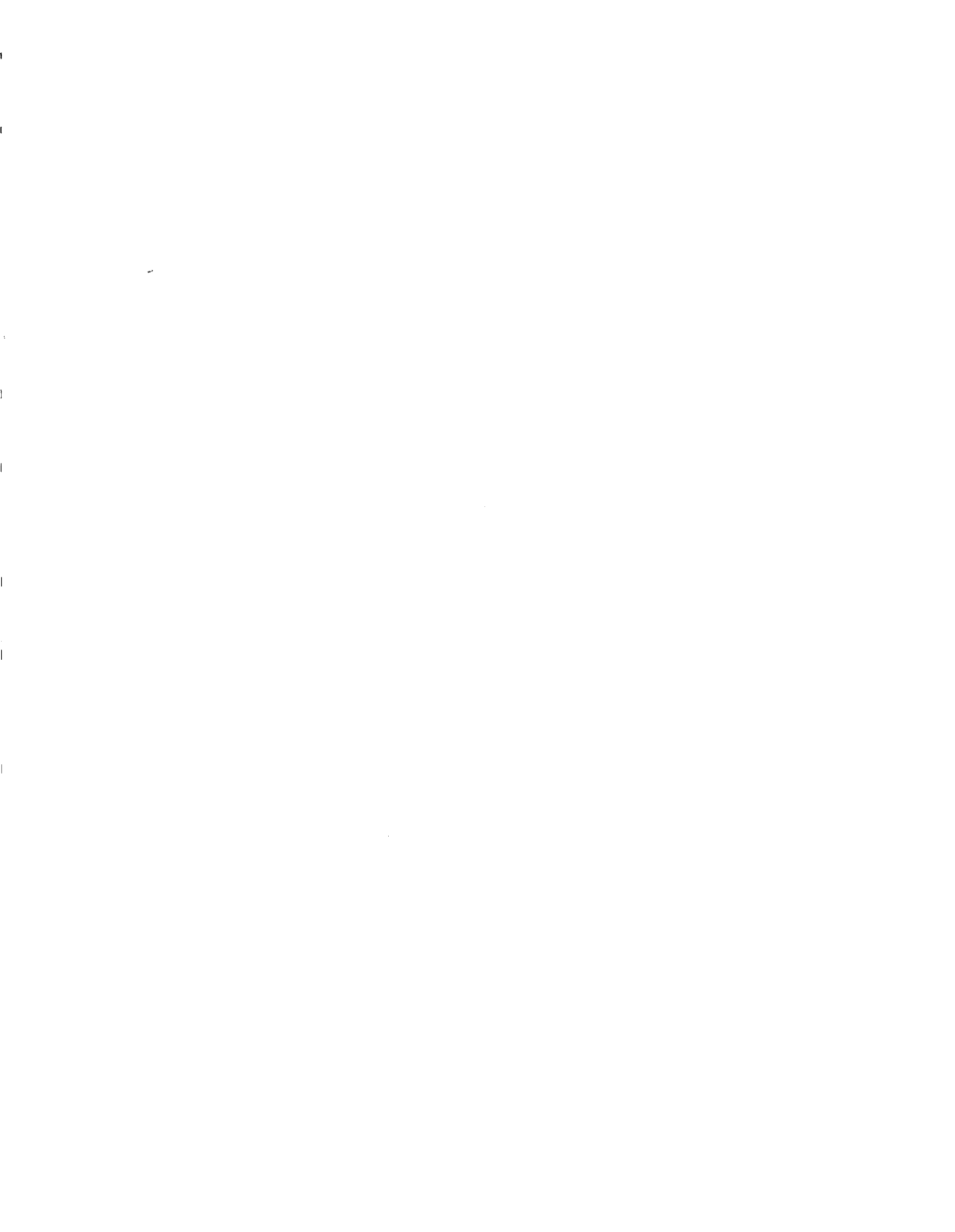
PROPERTY CONTROLS AT TOPEKA STATE HOSPITAL

Summary of Legislative Post Audit's Findings

What items of State Property were allegedly stolen from Topeka State Hospital? Based on investigative work done by the Department of Social and Rehabilitations Services' Fraud and Recovery Unit, the auditors concluded that at least 1,500 items having a total cost of over \$10,000 were allegedly stolen from buildings on the Topeka State Hospital grounds. These items were mostly tools, supplies, and office equipment.

What property controls were in effect at the time the alleged thefts occurred and how were those controls circumvented to allow the thefts? Based on reviews done by the Department of Social and Rehabilitation Services' Fraud and Recovery Unit and by the Department's Audit Section, the auditors concluded that the alleged thefts were due more to problems with Topeka State Hospital's security force procedures than to problems with the Hospital's property controls. The reviews mentioned above resulted in recommendations to the Hospital for improvements in both security force procedures and property controls.

What corrective actions, if any have been taken to prevent further thefts in the future? The Department of Social and Rehabilitation Services has established a central employee position that will be responsible for reviewing and improving security force procedures at all of the State hospitals. In addition, Topeka State Hospital has proposed a corrective action plan to address property control weaknesses identified by the Audit Section's review.



PROPERTY CONTROLS AT TOPEKA STATE HOSPITAL

Charges of theft involving State property at Topeka State Hospital were filed in mid-July 1985 against several former Hospital security guards. This incident raised serious questions about the adequacy of controls over State property at Topeka State Hospital. Accordingly, at its August 26, 1985, meeting, the Legislative Post Audit Committee authorized an audit reviewing these controls. The audit addresses the following questions:

1. **What items of State property were allegedly stolen from Topeka State Hospital?**
2. **What property controls were in effect at the time the alleged thefts occurred and how were those controls circumvented to allow the alleged thefts?**
3. **What corrective actions, if any, have been taken to prevent further thefts in the future?**

While planning for this audit, the auditors became aware that several other review and investigative efforts addressing this area were already under way. To avoid duplication of effort, the auditors contacted each of the groups involved to determine the nature, extent, and results of their work. The groups involved were the Department of Social and Rehabilitation Services' Fraud and Recovery Unit, the Department's Audit Section, and the Shawnee County District Attorney's Office. In addition, the auditors reviewed the State property section of the audit working papers of Fox & Company (now Grant Thornton) for the most recent financial-compliance audit of Topeka State Hospital, which covered State fiscal year 1984. The results of the contacts are summarized in the sections that follow.

Department of Social and Rehabilitation Services' Fraud and Recovery Unit

In early May 1985, the Superintendent of Topeka State Hospital contacted the Administrator of the Fraud and Recovery Unit to report that a book of taxi cab coupons had been stolen from the desk of a hospital counselor during the weekend of April 20-23, 1985. The coupon book had been returned to the Hospital by the taxi cab company. It reportedly had been purchased at a garage sale by one of the company's cab drivers. The address of the garage sale was listed to one of the Hospital's security guards. The Fraud and Recovery Unit questioned this guard, who implicated two other guards.

On June 9, the Fraud and Recovery Unit was formally assigned to investigate the situation at Topeka State Hospital. That investigation lasted about 10 weeks. It identified property losses in excess of \$10,000, with approximately 1,500 items listed. The auditors' review of the listing indicated about a dozen items that probably would have been listed on the Hospital's State property inventory listing. These items had a value of about \$1,500. The items that would not have been on the State property inventory listing were mainly commodity or supply items. The missing items were taken from many different areas of the Hospital and included some property of patients and Department of Social and Rehabilitation Services' employees. The investigation indicated that the theft activity could have been going on for several years.

List of Major Items Allegedly Stolen From Topeka State Hospital

<u>Item</u>	<u>Value</u>
Ignition wrench set	\$ 109
Leather hole punches	120
Box of craft supplies	135
Set of teaching cassette tapes	235
Coin collection (property of patient)	800
Camera and case	129
Postage stamps	520
Seven infant car seats	368
Microcassette player	250
Box of children's clothing	174
Box of cosmetics	493
Three bicycles	135
Nursing scales	150
Box of artist brushes	1,600
Tap and die set	275
Die maker set	200
Set of wrenches	150
3 1/2 hp motor	168
Dictaphone	<u>150</u>
 Total Value of Items Listed Above	 \$ 6,161
 Total Value of Items Not Listed Above	 <u>4,126</u>
 Total Value of Items Allegedly Stolen From Topeka State Hospital	 \$ 10,287 =====

Source: Listing of items allegedly stolen from Topeka State Hospital provided by the Department of Social and Rehabilitation Services' Fraud and Recovery Unit.

At the beginning of the investigation, the Fraud and Recovery Unit formally involved the Shawnee County District Attorney's Office. The investigation resulted in warrants being issued for three former security guards of the Hospital. These three guards resigned in May and June 1985. According to information provided by the Fraud and Recovery Unit, two other former security guards were apparently involved in thefts of property from the Hospital. Both resigned in July 1985. In one case, the amount of property involved was not significant enough to warrant pressing charges. In the other case, the time period specified by the statute of limitations had expired. The disposition of each case is covered later in this report.

In addition to these matters, an investigation report prepared by the Fraud and Recovery Unit pointed out problems in the procedures of the Hospital's Security Patrol. For example, security officers hired are checked for security clearance through the Kansas Bureau of Investigation by name only. However, there is no background check into the moral character of the officer, nor is there a fingerprint check for a previous criminal record under a name other than that given. The investigation report pointed out an example of a security officer who had two prior convictions for drug abuse and one prior conviction for resisting arrest.

The investigation report also made recommendations for improvement in the areas of basic policies, organizational structure, hiring practices, training, controls over keys,

adequacy of equipment, and recordkeeping. The report also suggested that there might be significant problems in the Hospital's controls over supplies.

Department of Social and Rehabilitation Services' Audit Section

The Audit Section had scheduled internal control reviews to be conducted for each of the State mental health and retardation hospitals beginning this past fall. Because of the situation at Topeka State Hospital, the Section was assigned to start a review at that Hospital in early August. The review focused on four major areas in addition to following up on some other previous work at Topeka State Hospital. The four major areas were:

- Purchasing and inventory
- Payroll
- Costing of services
- Accounts receivable (billing and collections)

The auditors reviewed a draft of the Audit Section's audit report and found that the review of inventory management was made to determine that controls are in place to ensure:

- Adequate segregation of duties among those responsible for inventory
- Authorized use of inventory stock
- Approval of transactions by authorized individuals
- Effective custodial accountability and physical safeguards
- Records that reflect actual quantities on hand.
- Proper recording of transactions in the accounts
- Periodic physical inventories and up-to-date inventory lists

Recommendations for Improvements Topeka State Hospital

Security Patrol Procedures -- Made by the Fraud and Recovery Unit

- ◇ The security patrol should be a self-contained unit reporting directly to the Superintendent.
- ◇ The hiring process should include a search for previous criminal history.
- ◇ Necessary equipment should be provided.
- ◇ The system for controlling access to keys should be improved.
- ◇ Employee training should be improved, including supervisory training.
- ◇ Documentation of policies and procedures should be updated.
- ◇ The security records system should be improved.

Property Procedures -- Made by the Audit Section

(Limited to the most relevant recommendations.)

- ◇ Goods should be received at one location, should be inspected and agreed to the requisition, and this check should be documented.
- ◇ Security over access to storage areas should be improved.
- ◇ Work orders and related materials requisitions should be properly documented.
- ◇ A complete and accurate inventory of maintenance supplies should be taken.
- ◇ Procedures for handling unused maintenance materials should be improved.
- ◇ All property should be identified with a property number.
- ◇ Property issued from the warehouse should be reviewed by the property control officer and assigned a property number.
- ◇ Proper documentation for all property transactions should be maintained by the property control office.
- ◇ Improve controls over the property condemnation process.

The draft audit report concluded that Topeka State Hospital had established policies and procedures for State property that would provide adequate internal control over these items but that the policies and procedures had not been sufficiently adhered to. For example, because the property control officer was not always notified that property purchased for the hospital had been received at the warehouse, property was sometimes issued to wards or offices before a property number was assigned to them. As a result, property could be placed at the wrong location, lost, or stolen without the property control officer even being aware that the property had been received.

The draft audit report also included findings and recommendations for improvement in several relevant areas. These areas included requisitioning, purchasing, receiving, storing, and processing payments for general supplies; requisitioning, storing, and controlling inventory levels for maintenance supplies; and purchasing and disposing of capital goods. Finally, the draft report indicated that the management of Topeka State Hospital either had or was in the process of addressing many of the findings presented.

Shawnee County District Attorney's Office

The auditors contacted representatives of the Shawnee County District Attorney's Office and learned that three persons had been charged in connection with the theft of property at Topeka State Hospital. One of the three was charged with conspiracy to commit burglary, burglary, and theft. He entered a plea of guilty to the conspiracy charge, and the other charges were dropped. He was sentenced to two years' probation and a \$500 fine. Another of the three was charged with burglary and theft. He entered a plea of guilty to misdemeanor theft, and received a sentence of one year's probation and a \$1,000 fine. The third person was charged with conspiracy to commit burglary, burglary, theft, and illegal disposition of assistance. He entered a plea of guilty to the illegal disposition charge but has not been sentenced yet. The dispositions of the various suspects' cases are summarized in Table 1.

TABLE 1
Disposition of Cases Involving Stolen Property
Topeka State Hospital

<u>Security Guard</u>	<u>Termination Date</u>	<u>Charges</u>	<u>Plea</u>	<u>Sentence</u>
A	5/21/85	◇Conspiracy to commit burglary ◇Burglary ◇Theft	Guilty to theft, other charges dropped	Two years probation \$500 fine
B	5/22/85	◇Burglary ◇Theft	Guilty to theft, other charge dropped	One year probation \$1,000 fine
C	6/21/85	◇Conspiracy to commit burglary ◇Burglary ◇Theft ◇Illegal disposition of assistance	Guilty to illegal disposition of assistance, other charges dropped	Pending
D	7/18/85	◇None -- Amounts involved too small	N/A	N/A
E	7/15/85	◇None -- Statute of limitations	N/A	N/A

Fox & Company (now Grant Thornton)

The auditors reviewed the applicable audit working papers for the most recent financial-compliance audit of Topeka State Hospital. That audit was conducted by Fox & Company (now Grant Thornton), a certified public accounting firm under contract with the Legislative Division of Post Audit. The firm concluded for State fiscal year 1984 that property controls were adequate and that the property procedures were in compliance with the procedural requirements of the Division of Accounts and Reports. This conclusion was based on a review of the Hospital's stated procedures for controlling State property and consummable commodities and upon testwork on a sample of actual items.

Summary of Significant Events Property Controls at Topeka State Hospital	
<u>Date</u>	<u>Event</u>
Early May 1985	Hospital superintendent contacts Fraud and Recovery Unit about recovery of stolen taxi cab coupons.
Mid-May	Fraud and Recovery Unit questions suspects.
May 21 and 22	Resignations by two security officers.
June 9	Fraud and Recovery Unit begins formal investigation.
June 9	Fraud and Recovery Unit contacts District Attorney's Office.
June 21	Resignation by one additional security officer.
Late June	Charges filed against three security officers.
July 15 and 18	Resignations by two additional security officers.
August	Fraud and Recovery Unit issues investigation report.
August	Audit Section begins review of property controls.
September to present	Hearings and sentencings on cases.
November	Audit Section issues draft report on its review.
December 3	Department of Social and Rehabilitation Services adopts plan to address problems with security force procedures.
January 7, 1986	Topeka State Hospital drafts corrective action plan to address problems with property controls.

Corrective Actions

The investigation by the Audit Section resulted in numerous recommendations for improvement in the property procedures actually used at Topeka State Hospital. The Hospital has adopted a corrective action plan to address those recommendations. The corrective actions generally take the form of updated procedures supported by documentation of requirements with assigned responsibilities for both implementation and periodic monitoring.

The investigation by the Fraud and Recovery Unit found that significant improvements are needed in the procedures of Topeka State Hospital's security force. The Department of Social and Rehabilitation Services has chosen to begin addressing this area by establishing a position in its Division of Mental Health and Retardation Services specifically responsible for security operations at all State hospitals.

Conclusion

The auditors concluded that the work of the other groups involved in reviewing the alleged thefts of State property at Topeka State Hospital could be relied on and that no additional audit work by Legislative Post Audit was needed to address this audit's basic questions. The auditors found that at least 1,500 items having a total cost of over \$10,000 were allegedly stolen from Topeka State Hospital. Charges have been filed against former Hospital security guards in connection with these alleged thefts. Property procedures established by the management of Topeka State Hospital were generally adequate to provide control over the Hospital's State property, but many of these procedures were not sufficiently adhered to. However, the alleged thefts were apparently due more to problems with the Hospital's security force than to problems with the Hospital's property controls. The Department of Social and Rehabilitation Services is taking steps to address problems identified in connection with this incident. These steps, if completed and properly carried out, should result in improvements in security procedures and property controls that will minimize the likelihood of this type of incident recurring.

Recommendations

1. The Department of Social and Rehabilitation Services should continue to monitor the property control systems in place at Topeka State Hospital.
2. The Department of Social and Rehabilitation Services should proceed in its efforts to strengthen security patrol policies and procedures at Topeka State Hospital, as well as at all of the other State hospitals.
3. The Legislative Post Audit Committee should direct the Legislative Division of Post Audit to conduct a follow-up review of the security patrol procedures and property controls at Topeka State Hospital at some future time to ensure that the problems noted in this report are being addressed on a timely basis.

APPENDIX A
Agency Response



STATE OF KANSAS

JOHN CARLIN, GOVERNOR

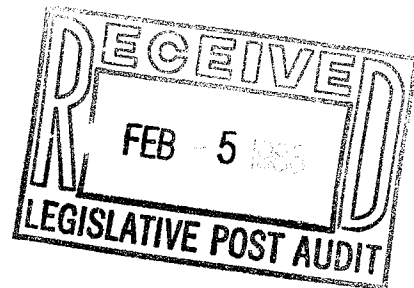
STATE DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES

ROBERT C. HARDER, SECRETARY

February 5, 1986

STATE OFFICE BUILDING
TOPEKA, KANSAS 66612

Mr. Meredith Williams
Legislative Post Auditor
Legislative Division of Post Audit
109 West 9th, Suite 301
Mills Building
Topeka, Kansas 66612-1285



Dear Mr. Williams:

Thank you for the opportunity to respond to the draft audit "Property Controls at Topeka State Hospital."

As an overall comment, the thefts noted occurred at Topeka State Hospital and at other SRS offices located on the grounds (now called State Complex West). Topeka State Hospital rents space to other sections of SRS and provides security and custodial services. However, it does not have other administrative responsibility in these offices such as property control. Theft items, as shown on page 2, were from both Topeka State Hospital and other SRS offices located on the grounds. The SRS audit team audited only the Topeka State Hospital operations and not other SRS offices located at State Complex West.

We agree with recommendations made concerning property control at Topeka State Hospital but would note these will not effect property control in other SRS offices on the grounds. Comments, corrective action plans and progress reports from Topeka State Hospital concerning the SRS audit findings, as noted on page 3 of your report, are as follows:

- a. "Goods should be received at one location, should be inspected and agreed to the requisition, and this check should be documented.":
Implemented: Note: Receiving Reports are now written at two locations. In subsequent discussion with SRS Audit Director, approval was given for the Storekeeper at the Mechanical Warehouse to receive stock items there and to write those Receiving Reports there for those items. Procedures are attached, as Enclosures 1; and 2;

- b. "Security over access to storage areas should be improved.": Implemented, with the exception of the Kirkbride Building. The location of the supply storage area on Kirkbride should be finalized within the week. Procedures are attached, as Enclosure 3;
- c. "Work orders and related materials requisitions should be properly documented.": Implemented: Procedures are attached as Enclosure 1; and 4;
- d. "A complete and accurate inventory of maintenance supplies should be taken.": Completed: A review of all slow moving and/or potentially surplus maintenance supplies has been completed in the Mechanical Warehouse and by the individual crafts foremen for each of their work areas at the Maintenance Shops. This review will be made each six months. The list of surplus items from the Mechanical Warehouse is being processed now to offer those to other SRS agencies and/or for eventual sale. The crafts' areas' surplus items are being returned to the Mechanical Warehouse and/or will also appear on the list to the other agencies. A complete inventory of all categories of items in the Mechanical Warehouse was performed during the months of June - September, 1985. The next complete inventory is scheduled to begin in June, 1986. Enclosure 5;
- e. "Procedures for handling unused maintenance materials should be improved.": See also response to (d), above. Procedures are attached as Enclosures 4, 6, 7, 8, 9, 10, 11 and 12;
- f. "All property should be identified with a property number.": Reinforced: Procedures are attached as Enclosures 6 and 13;
- g. "Property issued from the warehouse should be reviewed by the property control officer and assigned a property number.": Reinforced: Procedures are attached as Enclosures 14 and 15.
- h. "Proper documentation for all property transactions should be maintained by the property control office.": Implemented: Procedures are as Enclosures 16 and 17;
- i. "Improve controls over the property condemnation process.": Implemented: Procedures are attached, as Enclosures 7, 8, 9, 10, 11 and 12.

Mr. Meredith Williams

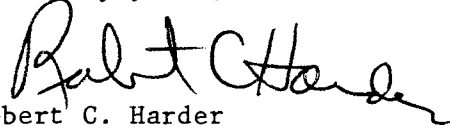
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February 5, 1986

We agree with the recommendations concerning the strengthening of Security Patrol procedures.

If we may provide further information, please let us know.

Sincerely yours,



Robert C. Harder
Secretary

RCH:JCS:cr

Attachments

cc: Charles Stevenson
Gary Weidenbach
Mack Schwein
Robert Clawson