

August 22, 2007

The Board of the Richmond Behavioral Health Authority
The City Council of City of Richmond

Subject: Investigation of Payroll Practices and Use of Funds

Background:

The City Auditor's Office received an anonymous hotline call which alleged the falsification of timesheets and leave reports in the Richmond Behavioral Health Authority (RBHA). Upon inquiry, the Executive Director assured the City Auditor that the transactions were properly authorized. He also stated that one of the transactions was an error that was corrected before the payroll was processed. However, this response did not appear to be adequate and the appropriateness of the transactions remained doubtful. The City Auditor brought the matter to the attention of a City Council member who is also an RBHA board member. The Council Member assisted the City Auditor's Office to discuss the matter with the President of the RBHA Board. At her request, the City Auditor agreed to perform an investigation.

Issues:

1. Several RBHA employees were alleged to have inappropriately received additional compensation
2. During the investigation, the City Auditor's Office identified misuse of RBHA funds

Findings:

The following table summarizes the investigation findings including transactions where the appropriateness was questionable as follows:

Observations	Amount
The Human Resources Director and the Payroll Coordinator had complete control over processing payroll transactions. They processed and collectively received additional compensation by misusing the leave redemption policy.	\$20,186
The Human Resources Manager received improper payment for 80 hours of sick leave in addition to 80 hours of regular pay in the same two-week period.	\$2,116
The Human Resources Director received additional compensation for performing extra duties during regular hours for which he was already compensated for.	\$48,680
Certain employees were paid travel advances for job related travel, which were for the purpose of payment of all travel related expenses. However, the Human Resource Director charged travel related expenses to the RBHA credit card and retained the advances.	\$52,774
The Human Resources Director charged personal expenses to the RBHA credit card, which were paid by RBHA.	\$6,292
There were several questionable expenses charged to the RBHA credit card, the business use of which is not known.	\$8,446
Credit card charges were incurred after the Human Resources Director was placed on administrative leave.	\$1,823
The investigator hired by RBHA identified cash or personal withdrawals made from the fund raising account.	\$30,030
Total amount of improper or questionable transactions	\$170,347

The details of the above findings are discussed subsequently in this report. The investigation identified weaknesses in internal controls in RBHA’s procedures reviewed by the City Auditor’s Office. These observations were communicated to the Commonwealth Attorney’s Office for further investigation and action. The observations indicated a lack of accountability in the Human Resources and Finance Departments. It should be noted that the investigation included a very limited review of records based on an allegation. Additional issues may exist. Currently, other than an external audit, RBHA operations do not undergo any independent review. An external audit is generally not designed to identify operational inefficiencies and fraud.

Recommendations:

1. The Commonwealth Attorney’s Office needs to review the observations in this report and take further action.

2. The RBHA Board needs to take appropriate personnel action including pressing charges against employees determined to be defrauding RBHA.
3. Implement a record retention policy that is consistent with the State's requirements.
4. Establish internal controls to ensure:
 - o Proper segregation of duties
 - o Accurate record-keeping
 - o Appropriateness of RBHA issued credit card transactions
 - o Adherence to the extra service and travel policies
5. The RBHA Board needs to conduct a comprehensive audit of its operations to detect additional operations and internal control discrepancies.

Discussion of Findings and Recommendations:

Sick and Vacation Sell-back

The internal control structure within the Human Resources Department was found to be extremely weak. The Human Resources Director and the Payroll Coordinator had complete control of the payroll process. Collectively, they controlled data input, review and approval of payroll reports and distribution of payroll checks. These individuals also had the capability to add and remove employees from the payroll system. Checks and balances were not in place to ensure that only legitimate and correct payroll entries were processed.

According to RBHA policy, only certain employees (grade 18 and above) are eligible to redeem up to 80 vacation hours annually on a calendar year basis. RBHA does not have any policy regarding sick leave sell-back. The investigation identified that the Human Resources Director redeemed a total of 400 vacation hours over a two-year period. The RBHA Policy allowed him to cash-in only 160 hours during this period. In addition, he also cashed-in 80 hours of sick leave. This means the Human Resources Director received unauthorized compensation for 320 hours (240 hours of unauthorized vacation sell-back and 80 hours of sick leave sell-back). This resulted in gross inappropriate compensation of **\$13,223.78**. During the same period, the Payroll

Coordinator cashed-in a total of 260 sick hours and 80 vacation hours. She was not qualified to redeem vacation leave. Her inappropriate compensation totaled **\$6,962.35**.

The inappropriate payments for the Human Resources Director and the Payroll Coordinator are depicted in the following tables:

The Human Resources Director

Date	Hours Cashed	Type	Amount
9/9/05	80	Vacation (had already cashed 80 hours on 6/17/05)	\$3,240.49
10/21/05	80	Vacation	\$3,240.49
6/2/06	80	Sick	\$3,240.49
7/14/06	80	Vacation (had already cashed 80 hours on 1/13 /06)	\$3,502.31
<i>Total for the HR Director</i>			<i>\$13,223.78</i>

The Payroll Coordinator

6/17/05	40	Sick	\$769.23
7/1/05	40	Sick	\$769.23
6/2/06	80	Sick	\$1,626.14
6/16/06	80	Vacation	\$1,626.14
6/30/06	60	Sick	\$1,219.61
8/11/06	40	Sick	\$952.00
<i>Total for the Payroll Coordinator</i>			<i>\$6,962.35</i>

Furthermore, on June 3, 2005, Human Resources Manager received payment for 80 hours of sick leave and regular pay of 80 hours during the same pay period. No documentation justifying this transaction was located. The Human Resources Manager was compensated \$2,116 for the sick leave.

Extra Service Compensation:

RBHA embarked into a business venture (Workplace Solutions) to generate additional revenues by providing diversity training both internally and externally. Workplace Solutions also served as a temporary staffing agency, which was managed by the Human Resources Director. The RBHA Board had approved this business venture.

Certain RBHA employees who were offered incentives to work for Workplace Solutions worked for RBHA as well. According to the policy, “exempt employees or nonexempt employees who have not yet worked forty (40) hours in a given work week in their primary, full time position, will be compensated for hours worked in an extra service assignment at a maximum pay rate that

is equal to regular base hourly rate plus 22%.” However, the time spent on RBHA business versus Workplace Solutions was not clearly defined or documented. Some of the conditions needed to be complied with to earn extra service compensation included:

- Assignments should **not** be completed during employees’ regular scheduled hours.
- Requests for extra service assignments should be in writing and approved by the HR Director or his superior.
- Assignments should be for different reporting unit(s) than the employees’ primary job.
- Separate timesheets should be maintained to support extra service hours.
- Extra service hours should be recorded separately from normal hours in the ADP payroll system.

RBHA generally did not comply with the extra service policy. The Workforce Solutions assignments were completed during the regular work hours. Documentation for approval of the extra service assignment was not available. Timesheets to support the extra service hours and their approvals were not included in the payroll files. Additionally, some extra service hours were combined with regular hours.

The investigation identified the Human Resources Director received additional compensation for performing extra duties during regular hours for which he was already compensated for. This means that he was compensated twice for the services provided. See *Attachment A* for a summary of extra services compensation paid the Human Resources Director.

Travel Expenses:

The Human Resources Director, along with other RBHA employees traveled extensively between September 2005 and February 2007 to conduct Workplace Solutions seminars and attending conferences. They received cash advances for their travel expenses. According to Policy, upon their return, staff is required to settle within 10 working days. They were also required to turn in original receipts for their expenses. They did not comply with the policy. Their travel expenditures were not settled and receipts were not provided. Furthermore, the Executive Director did not approve all overnight travel as required by Policy.

Purchasing Card Transactions:

The Human Resources Department had a purchasing card, which was assigned to the Human Resources Director. According to the purchasing card statement, the Human Resources Director charged lodging, meals, and other expenses for which he and the other employees had received travel advances. The total advances and mileage reimbursement paid to the Human Resources Director and other employees were **\$52,773.68**.

In addition to the advances, the Human Resources Director charged additional expenses, some of which included alcoholic beverages and movies as follows:

- Lodging \$18,535.85
- Meals \$4,079.45
- Car rental \$2,437.86
- Flights \$7,523.31

Personal expenses:

The purchasing card included payment for air travel for the Human Resources Director’s family members. One flight was booked for his wife totaling **\$359.20**. She accompanied him on his trip to Salt Lake City. While in Salt Lake City, he charged **\$2,028.90** on the credit card, which appeared to be personal expenditures.

The second flight was booked for his son, totaling **\$109.30**. His son flew to La Guardia International Airport in New York City, where the Human Resources Director spent the Thanksgiving Holiday. The Human Resources Director stayed at the New York Marriott-Marquis from November 22, 2006 through November 25, 2006. The total charge was **\$1,935.82**.

Other questionable charges include cancellation charges for reservations made at the Pinehurst Resort. Rooms were reserved under the Human Resources Director’s name, his wife and two non-RBHA employees.

He also traveled to New York City from May 24, 2006 through May 28, 2006 (Wednesday through Sunday) purportedly to search for executives for Workplace Solutions. The Executive Director did not approve the advance. His expenses totaled **\$1,859.02**.

Other questionable expenses include:

- **\$246.26** – The Human Resources Director booked a room at the Sheraton Park South located in Richmond for one night (9/26/06). The hotel charges included expenses of \$93.71 at the Ivy Lounge.
- **\$4,000** – Purchase of 40 - \$100 gift cards at the Short Pump Town Center. One of the cards was used on the same day the cards were purchased. Seven of those cards have not been used. Other cards have a remaining balance of \$207.06.
- **\$400** – Dick’s Sporting Goods – gift cards

Other charges to the credit card included a Portable DVD player, TV Poker Deluxe with Blackjack, XBX hardware with Forza, 2006 FIFA World Cup, number ones, Itunes download card, PS2 Hardware, two Ipods, and party items such as piñata fillers, party favors, body art, etc.

Furthermore, the Auditor noted the purchasing card included charges after the Human Resources Director and the Payroll Coordinator were placed on administrative leave, which was February 27, 2007. Some of the charges included:

Date	Description	Amount
2/28/07	Walgreen, Richmond	\$364.75
2/28/07	Jillian’s, Norfolk	\$709.36
3/1/07 – 3/1/07	Marriott Waterside, Norfolk	\$56.67
2/28/07 – 3/2/07	Marriott Waterside, Norfolk	\$257.00
2/28/07 – 3/2/07	Marriott Waterside, Norfolk	\$220.36
3/8/07	Domino’s Pizza, Norfolk	\$187.76
3/8/07	Chick-Fil-A Yorktown, VA	\$19.80
3/8/07	Burger King, Norfolk	\$7.11

Other weaknesses noted:

- Leave applications were not always recorded. Leave applications, grievance letter, and other HR related matters were not addressed.
- Leave balances were incorrect. A memo dated 1/4/06 submitted to the Payroll Coordinator indicated that 93% of the leave balances for the Crisis Division were incorrect.
- Payroll expenses totaling \$111,797.67 were charged to incorrect reporting units.
- Four employees received vacation payouts that exceeded their maximum balance.
- Workplace Solutions was a business venture for generating additional revenue. However, the Finance Department did not keep track of profit or loss from this venture. The investigator compiled the income and expenditures for seminars held outside the Richmond area from 8/20/06 through 2/24/07. Revenues generated through the seminars were compared to the expenses (lodging, meals, travel) incurred. According to documentation provided by RBHA staff, Workplace Solutions generated **\$10,315** in revenues.

Conclusions:

This investigation highlighted abuse of authority and lack of accountability by a high ranking officer of RBHA. The existing procedures did not detect and deter the expenditures. The Executive Director did not appear to have proper oversight over the Human Resources Department and Workplace Solutions. The Finance Department failed to detect compliance with RBHA policies and demand required documentation from Human Resources Director and his employees.

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