

Audit Report

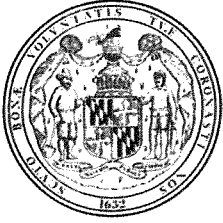
**Department of Health and Mental Hygiene
Alcohol and Drug Abuse Administration**

June 2012



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

June 12, 2012

Bruce A. Myers, CPA
Legislative Auditor

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Department of Health and Mental Hygiene (DHMH) – Alcohol and Drug Abuse Administration (ADAA) for the period beginning March 6, 2009 and ending July 14, 2011. ADAA develops, establishes, regulates, promotes, monitors, and supports prevention, treatment, and rehabilitation programs related to the misuse of alcohol and drugs. ADAA awards substance abuse treatment grants to local health departments and private providers (hospitals and nonprofit entities) throughout Maryland.

Our audit disclosed that ADAA had not established adequate controls over cash receipts, resulting in a lack of assurance that all collections received were deposited and recorded in the State's records.

The response from DHMH, on behalf of ADAA, to our findings and recommendations is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by ADAA.

Respectfully submitted,

A handwritten signature in black ink that reads "Bruce A. Myers".

Bruce A. Myers, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Alcohol and Drug Abuse Administration (ADAA) is a separate unit in the Department of Health and Mental Hygiene. ADAA develops, establishes, regulates, promotes, monitors, and supports prevention, treatment, and rehabilitation programs related to the misuse of alcohol and drugs. ADAA also promotes and conducts substance abuse related education, training, data collection, and research. ADAA awards substance abuse treatment grants to local health departments and private providers (hospitals and nonprofit entities) throughout Maryland. According to the State's records, during fiscal year 2011, ADAA's expenditures totaled \$141 million, of which \$132.5 million related to grants for alcohol and drug abuse programs. ADAA does not provide direct treatment services.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the two findings contained in our preceding audit report dated July 15, 2009. We determined that ADAA satisfactorily addressed these findings.

Findings and Recommendations

Cash Receipts

Finding 1

Adequate controls were not established over cash receipts.

Analysis

Controls over cash receipts were inadequate. According to the Alcohol and Drug Abuse Administration's (ADAA) records, during fiscal year 2011, collections for training and conference fees provided by ADAA and for certain federal grant funds totaled approximately \$292,000. These collections were forwarded to the Department of Health and Mental Hygiene's (DHMH) Office of the Secretary for subsequent deposit.

Our review disclosed that ADAA did not adequately verify that collections were forwarded to and received by DHMH's Office of the Secretary for deposit. Specifically, the verification was not always performed by an employee independent of the cash receipts function. In addition, ADAA did not always obtain a receipt from DHMH for use in the verification process. Furthermore, Federal grant fund checks were not restrictively endorsed immediately upon receipt. Instead, checks were endorsed by the third individual to handle them. Our review of 20 cash receipts totaling approximately \$369,000 received during fiscal years 2010 and 2011, disclosed that for 18 cash receipts totaling approximately \$359,000 a documented independent verification was not performed. For 6 of the 18 receipts totaling approximately \$151,000 a DHMH receipt was not obtained. Our review disclosed that all of these cash receipts had been deposited.

As a result of the aforementioned conditions, there was a lack of assurance that all collections received by ADAA were deposited and recorded in the State's accounting records.

Recommendation 1

We recommend that

- a. an employee independent of the cash receipts function verify the deposit of all collections with the receipt received from DHMH and document this verification, and**
- b. all collections be restrictively endorsed immediately upon receipt.**

We advised ADAA on accomplishing the necessary separation of duties using existing personnel.

Audit Scope, Objectives, and Methodology

We have audited the Department of Health and Mental Hygiene – Alcohol and Drug Abuse Administration (ADAA) for the period beginning March 6, 2009 and ending July 14, 2011. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine ADAA's financial transactions, records and internal control, and to evaluate its compliance with

applicable State laws, rules, and regulations. We also determined the status of the findings contained in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. The areas addressed by the audit included cash receipts and grant reporting. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of ADAA's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

Our audit did not include certain support services, such as payroll, purchasing, maintenance of accounting records, and related fiscal functions, provided to ADAA by the Department of Health and Mental Hygiene's Office of the Secretary and related units. These support services are included within the scope of our audits of the Department's Office of the Secretary. In addition, our audit did not include an evaluation of internal controls for federal financial assistance programs and an assessment of ADAA's compliance with federal laws and regulations pertaining to these programs because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including ADAA.

ADAA's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes a finding relating to a condition that we consider to be significant deficiency in the design or operation of internal control that could adversely affect ADAA's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and

regulations. Our audit did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to ADAA that did not warrant inclusion in this report.

The Department of Health and Mental Hygiene's response, on behalf of ADAA, to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise ADAA regarding the results of our review of its response.

APPENDIX



STATE OF MARYLAND

DHMH

Maryland Department of Health and Mental Hygiene
201 W. Preston Street • Baltimore, Maryland 21201

Martin O'Malley, Governor – Anthony G. Brown, Lt. Governor – Joshua M. Sharfstein, M.D., Secretary

June 11, 2012

Mr. Bruce A. Myers, CPA
Legislative Auditor
Office of Legislative Audits
Room 1202
301 West Preston Street
Baltimore, MD 21201

Dear Mr. Myers:

Thank you for your letter regarding the draft audit report of the Department of Health and Mental Hygiene – Alcohol and Drug Abuse Administration for the period beginning March 6, 2009 and ending July 14, 2011. Enclosed you will find the Department's response and plan of correction that addresses each audit recommendation.

I will work with the appropriate Directors of Administration, Program Directors, and Deputy Secretary to promptly address all audit exceptions. In addition, the Division of Internal Audits will follow-up on the recommendations to ensure compliance.

If you have any questions or require additional information, please do not hesitate to contact me at (410) 767-4639 or Thomas V. Russell, Inspector General, at (410) 767-5862.

Sincerely,

Joshua M. Sharfstein, M.D.
Secretary

Enclosure

cc: Renata J. Henry, Deputy Secretary for Behavioral Health and Disabilities, DHMH
Valerie A. Roddy, Assistant to the Deputy Secretary for Behavioral Health and Disabilities, DHMH
Kathleen Rebbert-Franklin, Acting Director, Alcohol and Drug Abuse Administration, DHMH
Patrick D. Dooley, Chief of Staff, Office of the Secretary, DHMH
Thomas V. Russell, Inspector General, DHMH
Ellwood L. Hall, Jr., Assistant Inspector General, DHMH

Finding 1

ADAA lacked adequate controls over cash receipts and there was a lack of assurance that all collections received by ADAA were deposited and recorded in the State's accounting records.

Auditor's Recommendations

We recommend that ADAA

- a. an employee independent of the cash receipts function verify the deposit of all collections with the receipt received from DHMH and document this verification, and**
- b. all collections be restrictively endorsed immediately upon receipt.**

Administration's Response

a. The Administration concurs with the recommendation. The Administration has made the change in the fiscal area to rectify separation of duties and verify and document receipt of collections for deposit. These changes were instituted as of September 1, 2011. The fiscal officer receives the deposit copy from DHMH and then verifies the deposit against the cash receipts log that the administrative assistant prepares, the check transmittal that the fiscal clerk prepares, and the FMIS system to document and verify that each check has been deposited and posted. The fiscal officer then signs off on the cash receipts log and the FMIS report and gives it to the fiscal clerk to scan into the shared drive and then files the hard copy.

b. The Administration concurs with the recommendation and has changed the process to rectify immediate endorsement of checks. The changes were instituted as of September 1, 2011. The administrative assistant of management services receives all checks to ADAA, immediately opens them, endorses them and logs them into the cash receipts log. The cash receipts log is given to the Fiscal Officer to hold for verification. A copy of the cash receipts log and the endorsed checks are then passed to the fiscal clerk to complete the check transmittal and send to DHMH for deposit.

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