

Audit Report

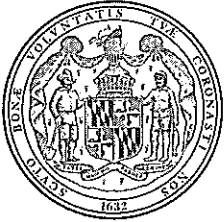
**Department of Health and Mental Hygiene
Holly Center**

September 2011



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

September 26, 2011

Bruce A. Myers, CPA
Legislative Auditor

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

Ladies and Gentlemen:

We have audited the Holly Center of the Department of Health and Mental Hygiene (DHMH) for the period beginning June 9, 2008 and ending May 4, 2011. The Center provides comprehensive services for persons of all ages who are developmentally disabled and reside in the nine counties of Maryland's Eastern Shore.

Our audit disclosed that the Center had not reconciled its resident fund records with the corresponding records of the Comptroller of Maryland since October 2006. Additionally, the Center had not performed complete physical inventories of its equipment as required.

DHMH's response to this audit, on behalf of the Center, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by the Center.

Respectfully submitted,

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

Bruce A. Myers, CPA
Legislative Auditor

Background Information

Agency Responsibilities

Holly Center, which is located in Salisbury, Maryland, provides comprehensive services for persons of all ages who are developmentally disabled and reside in the nine counties of Maryland's Eastern Shore. Additionally, the Center provides certain outpatient services, and coordination and support services to day programs and group homes for the developmentally disabled. As of June 30, 2011, the Center had a licensed capacity of 150 inpatient residents. During fiscal year 2011, the Center had a budgeted average daily population of 90 residents and, according to its records, an actual average daily population of 87 residents. According to the State's records, total Center expenditures were approximately \$18.3 million during fiscal year 2011.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the three findings contained in our preceding audit report on the Center dated October 23, 2008. We determined that the Center satisfactorily addressed all of these findings.

Findings and Recommendations

Resident Funds

Finding 1

The Center had not reconciled its resident fund records with the corresponding records of the Comptroller of Maryland since October 2006.

Analysis

The Center had not reconciled its resident fund records with the corresponding records of the Comptroller of Maryland since October 2006. As a result, an unreconciled difference existed between the records. Specifically, our comparison of the records as of May 31, 2011 disclosed the balance of the resident fund accounts per the Comptroller's records (\$144,730) exceeded the aggregate balance of the Center's individual resident accounts (\$112,762) by \$31,968.

Upon bringing this difference to the attention of Center management, it determined that the incorrect posting of various transactions was the primary cause of the unreconciled difference. The Center maintains resident funds in a

working fund account (used for personal expenditures of residents) or in separate interest bearing investment accounts.

Recommendation 1

We recommend that

- a. the Center reconcile its resident fund accounting records with the corresponding records of the Comptroller of Maryland on a monthly basis,**
- b. any differences identified be investigated and resolved and the reconciliations be documented and retained for future reference, and**
- c. the reconciliations be reviewed and approved by an employee independent of the resident fund record keeping function.**

Equipment

Finding 2

Physical inventories of equipment were not conducted at required intervals and record keeping was inadequate.

Analysis

Physical inventory and record keeping procedures were not in compliance with certain requirements of the Department of General Services' (DGS) *Inventory Control Manual*. As of June 30, 2011, the book value of the Center's equipment, as reported on the State's records, totaled approximately \$2.3 million. Our review of the Center's record keeping and inventory procedures disclosed the following conditions:

- Physical inventories were not completed as required. As of July 2011, the Center had not conducted a complete and documented physical inventory of all sensitive and non-sensitive equipment during our audit period. Although the Center's records indicated that inventory counts were performed at various times throughout our audit period for certain equipment items, the Center did not have documentation that these inventory counts were reconciled to the detailed equipment records. Additionally, the employee responsible for maintaining the detail records was also responsible for conducting the physical inventories.
- Reconciliations of the equipment control account with the detail records were not performed in a timely manner. As of July 2011, the Center had not performed reconciliations since August 2010.

The DGS *Inventory Control Manual* requires a physical inventory of sensitive equipment every year and an inventory of non-sensitive equipment every three years. Additionally, the *Manual* requires that the duties of record keeping and physical inventory taking be segregated. Furthermore, the *Manual* requires that a control account be maintained and that the aggregate balance of the related detail records be periodically reconciled with the control account balance.

Recommendation 2

We recommend that the Center comply with the requirements of the DGS *Inventory Control Manual*.

Audit Scope, Objectives, and Methodology

We have audited the Holly Center of the Department of Health and Mental Hygiene (DHMH) for the period beginning June 9, 2008 and ending May 4, 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 the Center'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 primary areas addressed by the audit included purchases and disbursements, cash receipts, payroll, equipment, and resident funds. Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observations of the Center'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.

The Center'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.

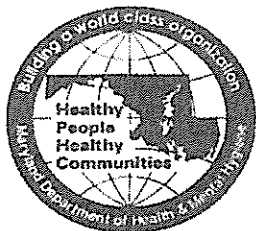
This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect the Center's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes a finding regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to the Center that did not warrant inclusion in this report.

The response from DHMH, on behalf of the Center, 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 DHMH 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

September 22, 2011

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

Dear Mr. Myers:

Thank you for your letter containing the draft audit report on the Department of Health and Mental Hygiene's Holly Center for the period beginning June 9, 2008 and ending May 4, 2011. Enclosed you will find the Department's response and plan of correction that addresses the audit recommendation.

I will work with the appropriate Deputy Secretaries, Program Directors, and Administrators to promptly address the audit exception. 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 Russell, Inspector General, of my staff at 410-767-5862.

Sincerely,

Joshua M. Sharfstein, M.D.
Secretary

Enclosure

cc: Shelly Amick, CEO, Holly Center, DHMH
Frank W. Kirkland, Director, DDA, DHMH
Ellwood L. Hall, Jr, Assistant Inspector General, Audits, DHMH
Renata J. Henry, Deputy Secretary, DHMH
Valerie A. Roddy, Assistant Director to the Deputy, DHMH
Thomas V. Russell, Inspector General, DHMH

**Department of Health and Mental Hygiene
Developmental Disabilities Administration
Legislative Audit Report: Findings and Responses
September 19, 2011**

Findings and Recommendations

Resident Funds

Finding 1

The Center had not reconciled its resident fund records with the corresponding records of the Comptroller of Maryland since October 2006.

Recommendation 1

We recommend that

- a. the Center reconcile its resident fund accounting records with the corresponding records of the Comptroller of Maryland on a monthly basis,**
- b. any differences identified be investigated and resolved and the reconciliations be documented and retained for future reference, and**
- c. the reconciliations be reviewed and approved by an employee independent of the resident fund record keeping function.**

The Center concurs with the auditor's finding and recommendations. We revised a policy & procedure to improve the above situation that was in process prior to this finding.

- a. The revised policy and procedure includes reconciling to the Comptroller of Maryland Bank Account on a monthly basis.
- b. The revised policy and procedure indicates that all identified differences be investigated and resolved with the reconciliations being documented and retained for future reference.
- c. All Patient Fund reconciliations are current, utilizing the revised policy. The Patient Fund internal account and Comptroller of Maryland Bank Account will continue to be reconciled, reviewed and approved on a monthly basis by the CFO. In addition, the CEO and COO will also review for a period of one year.

Equipment

Finding 2

Physical inventories of equipment were not conducted at required intervals and record keeping was inadequate.

Recommendation 2

We recommend that the Center comply with the requirements of the *DGS Inventory Control Manual*.

The Center concurs with the auditor's finding and recommendation. The Holly Center will revise the current physical Fixed Assets inventories and recordkeeping functions:

- On July 29, 2011, 1,317 out of 1,371 items (sensitive & non-sensitive) were located, scanned and/or documented into the A-Track Inventory System. Equipment not found will be documented and submitted as missing or stolen items to the Department of General Services on August 17, 2011.
- As required in the DGS Manual, Holly Center will perform a sensitive equipment inventory by June 30th of every fiscal year and forward to the CEO and/or COO.
- As required in the DGS Manual, all non-sensitive equipment will be inventoried once every three years and forwarded to the CEO and or COO.
- The COO will be notified of all inventory discrepancies and these items will be investigated and appropriate action taken.

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