

Audit Report

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

July 2010



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

July 7, 2010

Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Potomac Center, a unit of the Department of Health and Mental Hygiene, for the period beginning May 7, 2007 and ending March 21, 2010. Potomac Center's primary purpose is to provide services intended to maximize the physical, intellectual, emotional, and social development of individuals who have borderline to profound intellectual disabilities.

Our audit disclosed that the Center improperly retained \$79,800, rather than revert the funds to the State's General Fund at the end of fiscal year 2009.

The Department of Health and Mental Hygiene's response to this audit, on behalf of the Potomac 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,

Bruce A. Myers, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Potomac Center is a State residential facility for adult individuals with intellectual disabilities. It is located in Hagerstown, Maryland and serves individuals from the entire State. The Center provides services intended to maximize the physical, intellectual, emotional, and social development of individuals who have borderline to profound intellectual disabilities. It also provides habilitative services to expedite the return of individuals to a less restrictive environment. Furthermore, in July 2009, the Potomac Center established its Transitions Program, which serves up to 20 individuals who have both intellectual disabilities and mental illness; some of these individuals also have substance abuse problems.

The Center, which is a budgetary unit within the Department of Health and Mental Hygiene's Developmental Disabilities Administration, has a licensed capacity of 63 residents. During fiscal year 2009, the Center had an actual average daily population of 52 residents. According to the State's records, the Center's fiscal year 2009 expenditures totaled approximately \$9.7 million.

Status of Finding From Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated August 17, 2007. We determined that the Center satisfactorily addressed this finding.

Findings and Recommendations

Appropriations

Finding 1

The Center improperly retained \$79,800, rather than revert the funds to the State's General Fund.

Analysis

The Center recorded general fund accrued expenditures totaling \$79,800 at June 30, 2009 for which adequate supporting documentation was not on file. Since the Center could not substantiate that there were related fiscal year 2009 expenditures outstanding, these funds should have been reverted to the State's General Fund.

The *State Policy on Accounts Payable, Accrued Expenditures and Encumbrances* issued by the Comptroller of Maryland states that expenditures should be accrued only when goods or services have been received prior to fiscal year-end but not paid. The *Policy* further states that agencies must maintain proper detailed documentation to support the accrual. Any remaining funds at fiscal year-end should be reverted to the State's General Fund as required by the State Finance and Procurement Article of the Annotated Code of Maryland.

Recommendation 1

We recommend that the Center

- a. comply with the aforementioned procedures established by the Comptroller of Maryland and revert the \$79,800 to the State's General Fund, and**
- b. record accrued expenditures only when they are adequately supported.**

Audit Scope, Objectives, and Methodology

We have audited the Potomac Center, a unit of the Department of Health and Mental Hygiene's Developmental Disabilities Administration for the period beginning May 7, 2007 and ending March 21, 2010. 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 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 controls, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the finding included 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 disbursements for the Center's operating expenditures, as well as payroll, equipment inventories, and materials and supplies. Our audit procedures included inquiries of appropriate personnel, inspections 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.

Our audit did not disclose any 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. This report includes a finding regarding a significant instance of noncompliance with applicable laws, rules, or regulations. Another less significant finding was communicated to the Center that did not warrant inclusion in this report.

The response from the Department of Health and Mental Hygiene, on behalf of the Center, to our finding and recommendation 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 the Department 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 – John M. Colmers, Secretary

July 7, 2010

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

Dear Mr. Myers:

This is in response to your June 22, 2010 letter that included the draft audit report for the Developmental Disabilities Administration – Potomac Center for the period beginning May 7, 2007 and ending March 21, 2010. Attached you will find the Administration's response and plan of correction that addresses the audit recommendation. I will work with the Administration to promptly address all audit exceptions. In addition, our Office of the Inspector General 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 of my staff at (410) 767-5862.

Sincerely,

John M. Colmers
Secretary

Attachment

cc: Renata Henry, Deputy Secretary, Behavioral Health and Disabilities, DHMH
Valerie Roddy, Chief of Staff to the Deputy Secretary, Behavioral Health and Disabilities, DHMH
Thomas V. Russell, Inspector General, DHMH
Ellwood L. Hall, Jr., Assistant Inspector General, DHMH
Wendy Kronmiller, Chief of Staff to the Office of the Secretary, DHMH
Michael S. Chapman, Executive Director, Developmental Disabilities Administration, DHMH



Findings and Recommendations

Appropriations

Finding 1

The Center improperly retained \$79,800, rather than revert the funds to the State's General Fund.

Recommendation 1

We recommend that the Center

- a. comply with the aforementioned procedures established by the Comptroller of Maryland and revert the \$79,800 to the State's General Fund, and**
- b. record accrued expenditures only when they are adequately supported.**

Center's Response

- a. The Center concurs and will revert \$79,800 to the State's General Fund, and in the future will comply with the Comptroller of the Treasury's accrual procedures.**
- b. The Center concurs and in the future will record accrued expenditures with adequate supporting documentation.**

AUDIT TEAM

William R. Smith, CPA
Audit Manager

Michael A. Horvath
Senior Auditor