

Audit Report

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

August 2007

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**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

August 17, 2007

Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee  
Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Potomac Center of the Department of Health and Mental Hygiene for the period beginning April 1, 2004 and ending May 6, 2007.

Our audit disclosed that the Center had not established adequate internal controls over its equipment inventory.

Respectfully submitted,

Bruce A. Myers, CPA  
Legislative Auditor



## **Background Information**

### **Agency Responsibilities**

The Potomac Center is a regional facility for individuals with mental retardation. It is located in Hagerstown, Maryland and serves clients primarily from Allegany, Carroll, Frederick, Garrett, and Washington counties. The Center provides services intended to maximize the physical, intellectual, emotional and social development of individuals who have severe or profound mental retardation. 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 resident clients. During fiscal year 2006, the Center had a budgeted average daily population of 46 residents and an actual average daily population of 47 residents. According to the State's records, the Center's fiscal year 2006 expenditures totaled approximately \$9.5 million.

### **Current Status of Findings From Preceding Audit Report**

Our audit included a review to determine the current status of the finding contained in our preceding audit report dated September 1, 2004. We determined that the Center satisfactorily addressed this finding.

## **Findings and Recommendations**

### **Equipment**

<b>Finding 1</b> <b>Adequate internal controls were not established over equipment inventory.</b>
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#### **Analysis**

The Center had not established adequate internal controls over its equipment inventory. Specifically, certain related duties were not properly separated as the employee who received equipment purchases also maintained the related control and detail equipment records and participated in conducting periodic physical inventories. As a result, equipment items could be misappropriated and not readily detected by Center management.

The Department of General Services *Inventory Control Manual* states that the duties of record keeping and physical inventory taking should be separated. According to the State's accounting records, as of June 30, 2006, the value of the Center's equipment was approximately \$1.4 million.

### **Recommendation 1**

**We recommend that the duties of maintaining the equipment records and conducting physical inventories be separated, as required by the *Inventory Control Manual*. We also recommend that an employee other than the record keeper be responsible for receiving equipment purchases. We advised the Center on accomplishing the necessary separation of duties using existing personnel.**

## **Audit Scope, Objectives, and Methodology**

We have audited the Potomac Center for the period beginning April 1, 2004 and ending May 6, 2007. The audit was conducted in accordance with generally accepted government auditing standards.

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 current status of the finding 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. 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.

Our audit scope was limited with respect to the Center's cash transactions because the Office of the State Treasurer was unable to reconcile the State's main bank accounts during a portion of the audit period. Due to this condition, we were unable to determine, with reasonable assurance, that all Center cash transactions prior to July 1, 2005 were accounted for and properly recorded on the related State accounting records as well as the banks' records.

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 a finding relating to a condition that we consider to be a significant deficiency 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 audit did not disclose any significant instances of non-compliance with applicable laws, rules, or regulations.

The response from the Department of Health and Mental Hygiene, 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 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

August 17, 2007

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

Dear Mr. Myers:

Thank you for your letter regarding the draft audit report of the Potomac Center beginning April 1, 2004 and ending May 6, 2007. Enclosed you will find the Department's response and plan of correction that addresses the audit recommendation.

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

If you have any questions or require additional information, please do not hesitate to contact me at 410-767-6505 or Thomas Russell of my staff at 410-767-5862.

Sincerely,

John M. Colmers  
Secretary

Enclosure

cc: Michelle A. Gourdine, M.D., Deputy Secretary, DHMH  
Valerie Roddy, Assistant Director to the Deputy Secretary, DHMH  
Audrey Waters, Acting Director, DDA, DHMH  
Carolyn K. Brown, Acting Director, Potomac Center DHMH  
Ellwood L. Hall, Assistant Inspector General, Audits, DHMH  
Thomas Russell, Inspector General, DHMH



## Equipment

### Finding 1

**Adequate internal controls were not established over equipment inventory.**

**We recommend that the duties of maintaining the equipment records and conducting physical inventories be separated, as required by the *Inventory Control Manual*. We also recommend that an employee other than the record keeper be responsible for receiving equipment purchases. We advised the Center on accomplishing the necessary separation of duties using existing personnel.**

### Center's Response

We concur with the auditor's recommendation that one employee should maintain the detail equipment records and a second employee should conduct periodic physical inventories. As an interim solution, due to having but one (1) Fiscal Officer, Procurement Officer, and Supply Officer each, we have assigned a second independent employee to accompany the Supply Officer while conducting the equipment inventory. The designee would report inventory verification outcome directly to the Assistant Director. To establish proper controls, the Center will begin training an independent employee to conduct the periodic physical inventory by February 2008.

AUDIT TEAM

**Peter J. Klemans, CPA**  
Audit Manager

**Alexandra E. Zouras, CPA**  
Senior Auditor

**Adam M. Auerback**  
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