Audit Report

Department of Health and Mental Hygiene

Alcohol and Drug Abuse Administration

July 2009

OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

- This report and any related follow-up correspondence are available to the public through the Office of Legislative Audits at 301 West Preston Street, Room 1202, Baltimore, Maryland 21201. The Office may be contacted by telephone at 410-946-5900, 301-970-5900, or 1-877-486-9964.

- Electronic copies of our audit reports can be viewed or downloaded from our website at http://www.ola.state.md.us.

- Alternate formats may be requested through the Maryland Relay Service at 1-800-735-2258.

- The Department of Legislative Services – Office of the Executive Director, 90 State Circle, Annapolis, Maryland 21401 can also assist you in obtaining copies of our reports and related correspondence. The Department may be contacted by telephone at 410-946-5400 or 301-970-5400.

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

Bruce A. Myers, CPA
Legislative Auditor

July 15, 2009

Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Senator Verna L. Jones, 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 10, 2006 and ending March 5, 2009. 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 procedures established to monitor substance abuse treatment programs were not always performed, as required. In addition, we noted certain internal control deficiencies related to cash receipts.

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,

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 2008, ADAA's expenditures totaled $140 million, of which $136 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 December 20, 2006. We determined that ADAA satisfactorily addressed one of the findings. The remaining finding is repeated in this report.

Finding and Recommendation

Substance Abuse Treatment Programs

Finding 1
Certain program monitoring procedures were not always performed as required.

Analysis
Required compliance reviews of substance abuse treatment programs funded by grants to local health departments and private providers (hospitals and nonprofit entities) were not always performed in a timely manner and, in some cases, were not performed at all. In addition, there was a lack of assurance that patient data reported to the Alcohol and Drug Abuse Administration (ADAA) by substance

abuse treatment programs in one large jurisdiction had been periodically verified, as required. ADAA relies on these procedures to help it monitor the effectiveness of program operations and to ensure that treatment services are appropriately rendered.

Our review of 41 programs in four jurisdictions disclosed that, as of April 30, 2009, biennial program reviews had not been performed for 6 programs in three jurisdictions, even though these 6 programs had received funding each year since fiscal year 2006. Furthermore, as of that same date, such reviews for 4 other programs in the same three jurisdictions were overdue from 1 to 14 months after the two-year period. These reviews are required by law to verify, in part, compliance with State regulations and grant award conditions, such as the existence of required patient records and employee certifications. During fiscal year 2008, substance abuse treatment grant awards to the four jurisdictions we reviewed totaled approximately $29.8 million, of which $24.3 million was awarded to the aforementioned three jurisdictions.

In addition, ADAA lacked documentation that required patient data reported by programs in one large jurisdiction during fiscal years 2008 and 2009 had been verified for accuracy and completeness, as called for by ADAA policy, and ADAA was uncertain as to whether these verifications had been performed. All programs are required to submit monthly patient data to ADAA, such as admissions information, to be used for planning, evaluating, and managing the Statewide alcohol and drug abuse system. ADAA's policy is to verify the accuracy and completeness of these data by annual on-site visits. According to ADAA's records, approximately 17,000 patients were treated by ADAA-funded programs in this jurisdiction during fiscal year 2008. The related grant awards totaled approximately $50 million

According to ADAA's records, during fiscal year 2008, ADAA awarded grants to fund approximately 230 programs, and to provide treatment to approximately 59,000 individuals.

Recommendation 1

We recommend that ADAA ensure that all program compliance reviews and verifications of reported patient data are conducted, as required.

Cash Receipts

Finding 2
ADAA had not established adequate controls over cash receipts.

Analysis
Controls over cash receipts were inadequate. ADAA's collections consisted primarily of fees for training and conferences provided by ADAA, and certain federal grant funds, which totaled approximately $270,000 and $611,000, respectively, during the period from July 2007 through February 2009. The collections are forwarded to the Department of Health and Mental Hygiene's (DHMH) Office of the Secretary for subsequent deposit. Our review disclosed the following conditions:

- ADAA did not ensure that all training and conference fees were collected and subsequently deposited by reconciling course rosters to the related deposits. A similar condition was commented upon in our preceding audit report.

- The employee who initially received the fees had access to the database used to prepare the course rosters.

- The documentation used to initially record fee collections was not used in the deposit verification process. Instead, ADAA used a copy of the initial log that was received from another employee who processed collections; accordingly, the log could have been altered without detection.

- Federal grant funds were not restrictively endorsed immediately upon receipt. Instead, checks were endorsed by the third individual to handle them. In addition, an employee with routine access to the collections prior to endorsement was responsible for verifying the receipt of these collections by DHMH's Office of the Secretary.

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 2
We recommend

a. that an employee independent of the cash receipts functions verify that collections were received and deposited for the individuals listed on the course rosters (repeat),

b. that employees with access to training and conference fee collections not have access to the database used to establish course rosters,
c. that an employee independent of the cash receipts function verify the initial record of collections (as provided by the preparer) with the funds deposited by DHMH, and
d. that 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 10, 2006 and ending March 5, 2009. 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. 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 conditions that we consider to be significant deficiencies 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 report also includes a finding regarding 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 – John M. Colmers, Secretary

July 14, 2009

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 10, 2006 and ending March 5, 2009. 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,

John M. Colmers
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
Lisa J. Ellis, Chief Administrative Officer, DHMH
Thomas V. Russell, Inspector General, DHMH
Ellwood L. Hall, Jr., Assistant Inspector General, DHMH

Finding and Recommendation

Substance Abuse Treatment Programs

Finding 1
Certain program monitoring procedures were not always performed as required.

Recommendation 1
We recommend that ADAA ensure that all program compliance reviews and verifications of reported patient data are conducted, as required.

Administration Response:
The Administration concurs with the Auditor's recommendation.

The Quality Assurance Division was using source documents that did not fully reflect changes to the list of funded programs. This oversight created inconsistencies in programs to be tracked for reviews. Staffing shortages exacerbated problems with meeting this requirement.

Corrective Action:

- The Quality Assurance Division (QA) is in the process of developing a Master Reporting Document (MRD) derived from Management Service's 24 sub-division grant documents. The MRD will reflect all of the jurisdictions and the jurisdiction's sub-vendors that receive funding from the Administration. A schedule will be kept reflecting when programs will be visited for compliance monitoring. The MRD will also include specific information, by date and color code, regarding Compliance and Audit Reviews that are scheduled and those that have been completed during the mandated two-year cycle. The anticipated completion date is October 1, 2009.

- QA Division will assign a specific staff person (with an identified back-up) to manage and monitor all required jurisdictional reports and to assure the appropriate action is taken when the mandated reports are not completed or received from a jurisdiction.

The ADAA concurs that patient data was not adequately monitored by a specific program.

Corrective Action:

The following requirement has been added to the Memorandum of Understanding, which outlines requirements to ensure the accuracy and completeness of patient data reported by certain treatment service programs.

- The program shall monitor clinics receiving ADAA funding to ensure electronic reporting compliance of SAMIS information according to ADAA validation protocols as determined by the ADAA through site visits and electronic administrative oversight.

- The program shall send a report to the ADAA MIS Analyst outlining the number of programs validated, along with back-up validation documentation. The MIS Analyst will review the documentation and randomly check programs validated for thoroughness of the site visits and accuracy of the reports.

Cash Receipts

Finding 2
ADAA had not established adequate controls over cash receipts.

Recommendation 2
We recommend

a. that an employee independent of the cash receipts functions verify that collections were received and deposited for the individuals listed on the course rosters (repeat),
b. that employees with access to training and conference fee collections not have access to the database used to establish course rosters,
c. that an employee independent of the cash receipts function verify the initial record of collections (as provided by the preparer) with the funds deposited by DHMH, and
d. that all collections be restrictively endorsed immediately upon receipt.

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

Administration Response:
The Administration agrees with the Auditor's finding.

a. that an employee independent of the cash receipts functions verify that collections were received and deposited for the individuals listed on the course rosters (repeat),

The Computer Technology Section of the Administration is developing a comprehensive database with specific staff authorizations and restrictions. This database will allow staff to verify that collections were received and deposited with DHMH for all individuals listed on final course rosters. The database will also document and store the date, time and electronic signature for each transaction for staff accessing the database. Anticipated completion date no later than March 2010.

During this transitional period, the Administration had developed procedures to handle cash receipts in response to previous legislative audit findings but the necessary reconciliations were not always performed. An employee independent of the cash receipts functions will verify that collections were received and deposited for the individuals listed on the course roster.

b. that employees with access to training and conference fee collections not have access to the database used to establish course rosters,

Employees with access to training and conference fee collections will not have write-access to the database fields used to establish or modify course rosters. The Administration will assign the secretary of the Management Services Division (MSD) to open the OETAS mail and log in the payments. The MSD secretary will enter the payment into the mail log and the OETAS database. Access permissions will be restricted to only the fields related to cash receipts. The MSD secretary will not have access to database fields used to establish course rosters. If the secretary is absent or on leave, other appropriate staff will be designated to open the mail and follow the same procedure.

Database write access permissions will be restricted according to role and function and will ensure proper separation of duties. Employees with access to course fee collections will only have access to fiscal function fields. OETAS staff will have read-only access to fiscal data in order to verify that course payments have been made.

c. all collections be restrictively endorsed and recorded immediately upon receipt (including the dollar amount),

Effective immediately, the cash receipts are logged, the check is stamped “For Deposit Only”, and a tape is run on a calculator for back-up documentation.

d. an employee independent of the cash receipts function verify the initial record of collections (as provided by the preparer) to deposit with the DHMH accounting division,

An employee independent of the cash receipts function will verify the initial record of collections (as provided by the preparer) to deposit with the DHMH accounting division. For OETAS course receipts, deposits will be compared by the Fiscal Officer to the database generated report total. The tape, report and the checks will be delivered to the designated Management Services Division staff daily.

Upon receipt of grant fund checks, the receiving ADAA staff person will enter the payment in a log, restrictively endorse it, and forward it to the agency Fiscal Officer for verification and deposit.

e. written requests from applicants be required for refunds of course fees in accordance with ADAA's established refund policy, and

Written request from applicants will be required for refunds of course fees in accordance with ADAA's established refund policy. OETAS has created a credit/refund policy. Students will be required to submit the OETAS Refund/Credit Request form that is posted on the Administration's website or is available by mail or e-mail should a student request it. Once the written request has been received, the ADAA will follow the existing Credit/Refund procedure.

f. these verification procedures are documented.

Verification procedures will be documented. Policy and procedures will be updated to reflect these changes. ADAA staff will be trained and supporting documentation will be maintained.

AUDIT TEAM

Paul R. Denz, CPA
Audit Manager

Edward J. Welsh
Senior Auditor

Jonathan M. Bauman
Staff Auditor