

Audit Report

Department of Health and Mental Hygiene Community Health Administration

May 2008



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

May 2, 2008

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 Department of Health and Mental Hygiene – Community Health Administration (CHA) for the period beginning February 3, 2005 and ending October 31, 2007.

Our audit disclosed that the Department's Audit Division noted a number of procedural and internal control deficiencies at the local health departments for which CHA provides oversight. CHA should ensure that the local departments address the related recommendations. Our audit also disclosed several deficiencies during our review of one local health department. For example, proper controls were not established to ensure that all collections were deposited.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Community Health Administration (CHA) protects the health of the community by preventing and controlling infectious diseases, investigating disease outbreaks and environmental health issues, and protecting the health and general welfare of the public from foods, substances, and consumer products which may cause injury or illness. CHA is also responsible for aiding in the development and implementation of health services (such as communicable disease control) in the local health departments of the State's 23 counties and Baltimore City. According to the State's records, total CHA expenditures were approximately \$89.6 million during fiscal year 2007, including \$74.3 million provided to the local health departments.

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 September 29, 2005. Based on our current audit, these findings were not repeated in this report.

Findings and Recommendations

Local Health Departments

Local health departments are located in each political subdivision in Maryland and are operated with funding provided through grants and human services contracts from various Department of Health and Mental Hygiene units (including CHA) and local funding (grants from local governments and collections from clients). Each local health department has a local health officer and various support personnel (such as nurses and technicians). Based on the Department's records, funding provided to the local health departments by all Departmental units during fiscal year 2007 totaled approximately \$309 million, of which \$74.3 million was provided by CHA.

CHA has oversight responsibilities for all local health departments. Generally, we have relied on the work of the Department's Audit Division to provide audit coverage of the local health departments. Accordingly, our audit procedures were primarily limited to obtaining a sufficient basis for that reliance. However, we did perform audit procedures at one local health department to supplement the work of the Department's Audit Division.

Finding 1

The Department of Health and Mental Hygiene's Audit Division noted a number of procedural and internal control weaknesses during its audits of the local health departments.

Analysis

Our review of the audit reports related to local health departments issued by the Department's Audit Division during fiscal years 2005, 2006, and 2007 disclosed that the reports contained a number of procedural and internal control weaknesses and made recommendations to correct these deficiencies. For example, of the 21 audit reports issued related to local health departments during that period, 13 reports contained findings related to controls over cash receipts (collections from clients).

State regulations require the Department to periodically examine the accounts and records of local health departments receiving funds under contracts and grants with the Department. In accordance with this regulation, it is the Department's Audit Division's policy to audit each local health department at least every four years (certain large local departments are to be audited every three years).

Recommendation 1

We recommend that CHA ensure that the local health departments adequately address the recommendations made by the Department's Audit Division.

Finding 2

One local health department reviewed did not comply with its established policies, and certain internal control deficiencies were noted.

Analysis

Our review of one local health department disclosed certain instances of noncompliance with its established policies, as well as deficiencies in internal control:

- The local health department had not established adequate internal control over collections, which totaled approximately \$443,000 during fiscal year 2007. Specifically, the employees who received collections from clients also recorded the related charges in the automated system and had the ability to adjust charges and void transactions in the system without supervisory review and approval. Additionally, although supervisory personnel subsequently reviewed output reports of all adjustments to charges recorded in the system,

documentation provided by the clients supporting the adjustments was not reviewed by supervisory personnel. Consequently, errors and irregularities could occur without detection.

- The local health department did not always obtain adequate documentation to verify client identity and income, and did not always charge the proper fee for services rendered. Specifically, our test of services provided to 25 clients during the period from March 2007 through January 2008 disclosed that documentation related to proof of identity (such as a driver's license) was not on file for 6 clients. Additionally, 5 clients had not provided any proof of income (such as a pay stub or W-2) which is necessary to determine the amount of the fee that should be charged to the client for services provided based on a sliding scale. Furthermore, we noted that 2 clients had provided proof of income documentation to the local health department, but were charged the wrong fee based on income documentation provided. The local health department's policy is to obtain proof of identity and proof of income from clients.

Recommendation 2

We recommend that employees who process collections not have the ability to record and adjust charges or void transactions in the automated system. We also recommend that supervisory personnel review documentation supporting adjustments to charges recorded in the system, at least on a test basis. Finally, we recommend that proper documentation of proof of client identity and income be obtained and proper fees be charged based on the proof of income provided.

Audit Scope, Objectives, and Methodology

We have audited the Department of Health and Mental Hygiene – Community Health Administration (CHA) for the period beginning February 3, 2005 and ending October 31, 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 CHA'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 CHA'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 provided by the Department's Office of the Secretary and related units to the other units of the Department, including CHA. These support services (such as payroll, purchasing, maintenance of accounting records, and related fiscal functions) are within the scope of our audit of the Office of the Secretary. In addition, we did not audit CHA's federal financial assistance programs for compliance with federal laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies.

Our scope was limited with respect to CHA'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 CHA 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.

CHA'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 that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect CHA'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 CHA that did not warrant inclusion in this report.

The Department's response to our findings and recommendations, on behalf of CHA, 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 CHA 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

May 1, 2008

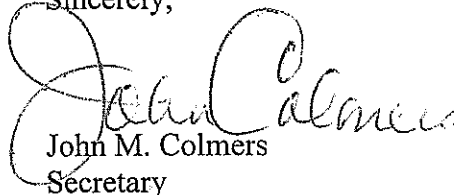
Bruce A. Myers, CPA
Legislative Auditor
Office of Legislative Audits
301 West Preston Street
Baltimore, MD 21201

Dear Mr. Myers:

This is in response to your April 17, 2008 letter that included the draft audit report for the Community Health Administration for the period beginning February 3, 2005 and ending October 31, 2007. Attached please find the Department's responses which include corrective actions to address each audit recommendation.

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, at 410-767-5784.

Sincerely,



John M. Colmers
Secretary

cc: Ms. Arlene H. Stephenson
Peter A. Sybinsky, Ph.D.
Mr. James Johnson
Mr. Thomas Russell

Finding 1

The Department of Health and Mental Hygiene's Audit Division noted a number of procedural and internal control weaknesses during its audits of the local health departments.

Recommendation 1

We recommend that CHA ensure that the local health departments adequately address the recommendations made by the Department's Audit Division.

Department's Response

The Department of Health and Mental Hygiene agrees that local health departments should adequately address recommendations made by the Department's Audit Division. One purpose of the periodic audits of local health departments by the Department's Audit Division is to provide DHMH Administrations with independent assurance of the existence of adequate financial controls. Since the Audit Division's procedures incorporate a follow-up protocol for material findings, effective immediately, the Department will take appropriate action to address the findings in a timely manner.

Finding 2

One local health department reviewed did not comply with its established policies, and certain internal control deficiencies were noted.

Recommendation

We recommend that employees who process collections not have the ability to record and adjust charges or void transactions in the automated system. We also recommend that supervisory personnel review documentation supporting adjustments to charges recorded in the system, at least on a test basis. Finally, we recommend that proper documentation of proof of client identity and income be obtained and proper fees be charged based on the proof of income provided.

Department's Response

The Department of Health and Mental Hygiene and the local health department agree with the Legislative Auditor's recommendations. The first recommendation pertains to self-pay clients and co-pays by third party insured clients, as recoveries from third party payers (79.5% of clinic collections) are handled centrally by the local health department's Fiscal Services Unit and are all properly segregated and controlled. Third party billings are prepared by the Accounts Receivable Supervisor who does not have access to receipts. Payments are received by the Finance Director's Assistant who does not have access to the accounts receivable records. For self-pay clients, as of April 1, 2008, the functions of 1) fee determination, and recording and adjusting related charges and

voiding transactions in the automated system, and 2) handling fee collections, were assigned to two different employees at each clinic site.

In response to the second recommendation, as of April 1, 2008, all fee adjustments entered into the local health department's automated system will be accompanied by a statement signed by the Clinic Site Supervisor or designee certifying that written documentation supporting all adjustments is on file at the clinic site. Furthermore, the local health department's Fiscal Services Unit will test periodically the adequacy of documentation supporting fee adjustments recorded in the automated system.

Finally, in response to the third recommendation, current policies and procedures followed by the local health department require verification of client identity and documentation of income and, if applicable, proof of third party insurance coverage. Clients are financially responsible for 100% of the charge for a rendered service unless documentation is provided within 30 days of the date of service that supports a fee adjustment. By July 1, 2008, the local health department's Fiscal Services Unit will re-instruct all employees involved with clinic fee determinations to obtain adequate proof of identity and income and, as applicable, proof of third party insurance coverage, for all clients, and re-emphasize the importance of accuracy in making fee determinations based upon a sliding fee scale.

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