

Audit Report

**Department of Health and Mental Hygiene
Clifton T. Perkins Hospital Center**

September 2015



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

Warren G. Deschenaux
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

September 18, 2015

Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee
Delegate Craig J. Zucker, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Clifton T. Perkins Hospital Center of the Department of Health and Mental Hygiene (DHMH) for the period beginning February 17, 2012 and ending April 28, 2015. The Center provides comprehensive psychiatric evaluation and treatment services to individuals in a maximum security environment.

Our audit disclosed that the Center had not established adequate controls to ensure all collections were deposited.

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, appearing to read "Thomas J. Barnickel III".

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Clifton T. Perkins Hospital Center, located in Jessup, Maryland, provides comprehensive psychiatric evaluation and treatment services to individuals in a maximum security environment. The Center has a licensed capacity of 298 resident patients and, during fiscal year 2015, had a budgeted average daily population of 248 residents and an actual average daily population of 242 residents. The Center is accredited by The Joint Commission, which evaluates and monitors health care organizations nationwide to ensure the highest quality of care is provided. According to the State's records, Center expenditures totaled approximately \$61 million during fiscal year 2014.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the four findings contained in our preceding audit report dated December 6, 2012. We determined that the Center satisfactorily addressed three of these findings. The remaining finding is repeated in this report.

Findings and Recommendations

Cash Receipts

Finding 1

Internal controls were not sufficient to ensure that all collections were deposited.

Analysis

The Center had not established adequate controls to ensure all collections were deposited. According to the State's records, the Center's collections totaled approximately \$403,000 during the period from July 1, 2014 through May 8, 2015, the majority of which related to collections for patient funds and dietary services. These collections were received through the mail and in person.

- The employee responsible for verifying that all collections were deposited had access to the collections prior to deposit and, consequently, was not independent. A similar condition was commented upon in our preceding audit report. Furthermore, the documents on which collections were initially

recorded were not forwarded directly to this employee. Instead, the documents and related collections were first forwarded to other employees for processing and deposit preparation. Consequently, the initial record of collections could be altered to conceal misappropriations.

- The Center did not adequately account for prenumbered receipt forms, which were the initial record of patient fund collections. Specifically, there was no independent inventory maintained and no accounting of these forms as to issued, voided, or on hand. An adequate accounting for the receipt forms is critical since they are used in the verification of collections to deposit.

The Comptroller of Maryland's *Accounting Procedures Manual* requires that a reconciliation of the initial record of collections to the amounts deposited be performed by an employee independent of the cash receipts functions, and that prenumbered receipt forms be periodically accounted for as to issued, voided, or on hand.

Recommendation 1

We recommend that the Center ensure that

- a. the employee who performs the deposit verification does not have access to collections prior to deposit (repeat);**
- b. the original records of collections are given directly to the employee responsible for performing the deposit verifications; and**
- c. prenumbered receipt forms are periodically accounted for as to issued, voided, or on hand, by an employee who does not handle cash receipts.**

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

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Clifton T. Perkins Hospital Center of the Department of Health and Mental Hygiene (DHMH) for the period beginning February 17, 2012 and ending April 28, 2015. 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.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included cash receipts, patient funds, payroll, disbursements, and materials and supplies. We also determined the status of the findings contained in our preceding audit report.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of the Center's operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these various sources were sufficiently reliable for the purposes the data were used during this audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

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 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 finding is also a significant instance 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.



STATE OF MARYLAND

DHMH

Maryland Department of Health and Mental Hygiene

Larry Hogan, Governor - Boyd Rutherford, Lt. Governor - Van Mitchell, Secretary

September 16, 2015

Mr. Thomas J. Barnickel III, CPA
Legislative Auditor
Office of Legislative Audits
301 West Preston Street
Baltimore, MD 21201

Dear Mr. Barnickel:

Thank you for your letter regarding the draft audit report for the Clifton T. Perkins Hospital Center of the Department of Health and Mental Hygiene for the period beginning February 17, 2012 and ending April 28, 2015. Enclosed you will find the Department's response and plan of correction that addresses each audit recommendation.

I will work with the appropriate Administration Directors, Programs Directors, and Deputy Secretary to promptly address the audit exceptions. In addition, the OIG's 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 Susan Steinberg, Acting Inspector General, at 410-767-5862.

Sincerely,

Van T. Mitchell
Secretary

cc: Gayle M. Jordan-Randolph, M.D., Deputy Secretary for Behavioral Health, DHMH
Rianna P. Matthews-Brown, J.D., Chief of Staff, Behavioral Health, DHMH
Albert Zachik, M.D., Acting Executive Director, Behavioral Health Administration, DHMH
Mary R. Sheperd, Deputy Director, Facilities Management, Behavioral Health Administration, DHMH
Thomas Lewis, Acting Chief Executive Officer, Clifton T. Perkins Hospital Center
Shawn Cain, Chief of Staff, DHMH
Susan Steinberg, Acting Inspector General, DHMH
Pamela S. Leonard, Chief, Internal Audits, DHMH

The Administration's Response to the Audit of the Clifton T. Perkins Hospital Center
of the Department of Health and Mental Hygiene
for the Period Beginning February 17, 2012 and Ending April 28, 2015.

Finding 1

Internal controls were not sufficient to ensure that all collections were deposited.

Recommendation 1

We recommend that the Center ensure that

- a. the employee who performs the deposit verification does not have access to collections prior to deposit (repeat);**
- b. the original records of collections are given directly to the employee responsible for performing the deposit verifications; and**
- c. prenumbered receipt forms are periodically accounted for as to issued, voided, or on hand, by an employee who does not handle cash receipts.**

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

Administration's Response:

- a.** The Administration concurs with this recommendation. The Deputy CFO will not have access to a separate locked compartment within the safe where the cash receipts will be kept until deposited with the bank. Due to the other duties of the Deputy CFO, it is not practical to eliminate his access to the safe. This will be implemented effective October 1, 2015.
- b.** The Administration concurs with this recommendation. CTPHC agrees to have the individuals initially collecting the receipts to scan copies of the receipts to a folder on the Deputy CFO's computer. These scanned documents will then be used to verify that receipts are deposited. The scanned receipts will be downloaded to DVD or thumb drive periodically to be kept for audit purposes. This will be implemented October 1, 2015.
- c.** The Administration concurs with this recommendation. The CFO will verify the pre-numbered receipt forms issued, voided or on hand on a monthly basis beginning with the month ending October 31, 2015.

AUDIT TEAM

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