

Audit Report

Department of Disabilities

July 2015



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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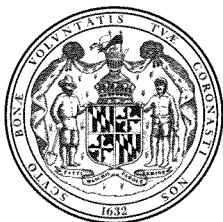
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

July 9, 2015

Thomas J. Barnickel III, CPA
Legislative Auditor

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 Department of Disabilities (DOD) for the period beginning March 14, 2012 and ending January 4, 2015. DOD evaluates programs and services for citizens with disabilities, and coordinates and supports public and private agencies serving persons with disabilities.

Our audit disclosed that DOD had not established controls to ensure that Attendant Care Program payments were made only for eligible participants. In addition, certain case management services provided by a vendor were not adequately monitored nor were the billings verified.

DOD's response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us by DOD during the course of this audit.

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Department of Disabilities (DOD) is responsible for evaluating programs and services for citizens with disabilities, and coordinating and supporting public and private agencies serving persons with disabilities. According to the State's records, DOD's expenditures were approximately \$6.9 million during fiscal year 2014, which included approximately \$2.0 million for grants and subsidies.

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 November 5, 2012. We determined that DOD satisfactorily addressed these findings.

Findings and Recommendations

Attendant Care Program

Finding 1

DOD lacked controls to ensure that Attendant Care Program payments were made only to eligible participants.

Analysis

Controls were not in place to ensure that Attendant Care Program (ACP) payments were made only to eligible participants. We noted that the employee responsible for submitting attendant service payment requests to the Executive Department – Governor's Finance Office for processing did not verify that requests were only for eligible individuals. Specifically, the employee did not ensure an eligibility determination checklist, signed by both an initial reviewer and the ACP Program Manager, existed for the individuals for whom payments were being requested. Consequently, improper payments could be made without detection.

The ACP provides financial reimbursements to participants with severe chronic or permanent physical disabilities who require attendant services. DOD determines ACP eligibility based on specified criteria, such as the applicant's disability status, residency, and income. Program participants initially pay their attendants for services then request reimbursement from DOD by submitting required

paperwork, including a certification of services provided and attendant timesheets. According to DOD's records, there were 182 ACP enrollees as of February 2015, and ACP expenditures during fiscal year 2014 totaled approximately \$1.3 million.

Recommendation 1

We recommend that DOD implement controls to ensure ACP payments are made only to eligible participants. Specifically, we recommend that the independent employee who submits payment requests confirm that payments are processed only for eligible participants by sighting a properly prepared and signed eligibility determination checklist.

Contracts

Finding 2

DOD did not monitor a case management contract to ensure services were provided as required and payments were based on the contract terms.

Analysis

DOD did not monitor a case management services contract to ensure that required services were provided and that payments were made according to the contract terms. In this regard, DOD contracted with a vendor to provide comprehensive case management services, including intervention and other individualized services for up to 1,000 children receiving Supplemental Security Income and their families. The vendor is required to provide staffing, as well as certain data collection, maintenance, and reporting services. The vendor is paid for actual expenses incurred, such as salaries, fringe benefits, and travel, not to exceed specific rates and limits.

- DOD did not obtain and review supporting documentation from the vendor to verify that appropriate case management services were being provided to children and their families. Such services could include job development plans, benefit assessments, and educational attainment plans. While DOD did obtain progress reports on all activities, as required by the contract, these progress reports were general in nature and were not specific to the children served.
- DOD did not obtain and review supporting documentation, such as payroll reports, to verify salaries, fringe benefits, and travel costs billed by the vendor. As a result, DOD could not ensure the propriety of the invoices. Although the contract terms did not require the vendor to provide such documentation with

the submitted invoices, the vendor was required by the contract to provide DOD with access to all requested records. Based on payroll reports we obtained directly from the vendor, our recalculation of 128 salary payments totaling \$189,000 from the vendor's June and September 2014 invoices disclosed 44 instances where the salary rates paid by the vendor and billed to DOD exceeded the contract rates and/or included employee bonuses that were not provided for in the contract. This resulted in overpayments totaling approximately \$8,000.

DOD contracted with this vendor for a base period of December 30, 2013 through October 1, 2015 for approximately \$5.5 million. The contract also included three one-year renewal options totaling an additional \$11.6 million. According to the State's records, as of January 4, 2015, payments on the contract totaled approximately \$1.5 million.

Recommendation 2

We recommend that DOD

- a. obtain and review documentation, on a test basis, to ensure individual services were provided to children as required;**
- b. obtain and review documentation, such as payroll reports, to ensure billed costs are supported and are consistent with the contract terms; and**
- c. review prior billings for potential overpayments and recover all overpayments from the vendor, including those noted above.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Department of Disabilities (DOD) for the period beginning March 14, 2012 and ending January 4, 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 DOD'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 contracts, equipment, and the Attendant Care Program. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include certain support services provided to DOD by the Executive Department – Governor. These support services (for example, processing of invoices and payroll, and maintenance of certain accounting records and related fiscal functions) are included within the scope of our audit of the Executive Department – Governor. In addition, our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs and an assessment of DOD's compliance with those laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including DOD.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of DOD's operations, and tests of transactions. We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure 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 objectives. The reliability of data used in this report for background or informational purposes was not assessed.

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

DOD's response 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 DOD regarding the results of our review of its response.

APPENDIX

Carol A. Beatty, Secretary
William J. Frank, Deputy Secretary



Larry Hogan, Governor
Boyd K. Rutherford, Lt. Governor

July 2, 2015

Mr. Thomas J. Barnickel, III, CPA
Legislative Auditor
Office of Legislative Audits
301 W. Preston Street, Room 1202
Baltimore, Maryland 21201

Dear Mr. Barnickel:

Enclosed please find our response to the audit report on the Department of Disabilities for the period beginning March 14, 2012 and ending January 4, 2015.

Thank you for the opportunity to respond to the draft report. If you or your staff has any questions concerning the responses, please do not hesitate to contact John Brennan, Chief of Staff.

Sincerely,

A handwritten signature in cursive script that reads "Carol A. Beatty".

Carol Beatty
Secretary

MRE: jpb
encl.

cc: Amanda O'Malley, Deputy Chief of Staff
Lawrence Myers, Director of Administration, GOFA
William J. Frank, Deputy Secretary

Recommendation I – Attendant Care Program

We recommend that DOD implement controls to ensure ACP payments are made only to eligible participants. Specifically, we recommend that the independent employee who submits payment requests confirm that payments are processed only for eligible participants by sighting a properly prepared and signed eligibility determination checklist.

MDOD's current eligibility determination process includes an independent review and determination of eligibility by two separate staff members. The first review and determination is completed by ACP support staff. The second is conducted by the ACP Program Manager. Each person completes the same steps independently. If the applicant is determined eligible through this process, the ACP Program Manager adds the applicant to the Current Participant List. The independent review and determination is documented in the applicant's files in the form of an ACP Applicant Eligibility Determination Checklist signed by both the initial Reviewer and the ACP Program Manager.

MDOD acknowledges that an additional check to prevent unilateral approval of both participant eligibility and payment reimbursement by the ACP Program Manager is not in place. Effective July 1, 2015, we will initiate random participant file checks selected from the Processing Spreadsheet, which encompasses every invoice, prior to payment and during each bi-weekly pay period. The check will be performed by the independent employee who submits payment. MDOD will document this process with a form signed by the independent employee at the time the random file checks are completed.

Recommendation 2 – Contracts

We recommend that DOD:

A. Obtain and review adequate documentation, such as case notes, to ensure individual services were provided to children as required.

MDOD concurs with the recommendation and is initiating steps to prevent recurrence. First, MDOD will provide training to staff responsible for monitoring the contract to improve our oversight of the provision of services under the contract. In addition, we will obtain case notes at regular intervals to ensure that documentation of specific services provided to individuals by the vendor is verified prior to payment. These steps will be initiated immediately and the review process will remain in effect for the duration of the contract.

B. Obtain documentation, such as payroll reports, to ensure billed costs that support are consistent with the contract terms.

MDOD concurs with the recommendation and is initiating steps to prevent recurrence. As previously mentioned, MDOD will provide training to staff responsible for monitoring the contract to improve our oversight of the provision of services under the contract. In addition, we will obtain Labor Distribution Reports from the vendor at regular intervals to ensure that the rates contained in the invoice are: 1) consistent with the rates paid for specific positions, and 2) that the rate of pay matches the terms of the contract. These steps will be initiated immediately and the review process will remain in effect for the duration of the contract.

C. Review prior billings for potential overpayments and recover all overpayments from the vendor, including those noted above.

MDOD concurs with the recommendation. We will initiate the review within the first three months of FY16 and complete the review and recovery process prior to the close of FY16 on June 30, 2017.

AUDIT TEAM

Mark S. Hagenbuch, CPA
Audit Manager

Nicholas J. Caronna, CPA
Senior Auditor