

Audit Report

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

January 2014



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

January 7, 2014

Thomas J. Barnickel III, CPA
Legislative Auditor

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Potomac Center, a unit of the Department of Health and Mental Hygiene, for the period beginning March 22, 2010 and ending June 9, 2013. The Potomac Center's primary purpose is to provide services intended to maximize the physical, intellectual, emotional, and social development of individuals who have borderline to profound intellectual disabilities.

Our audit disclosed that internal controls over adjustments to the Center's payroll were not sufficient, resulting in improper payments not being detected. In addition, a management employee had improperly received accident leave payments totaling \$13,500 over an extended period of time. Finally, we noted that the Center did not comply with State Procurement Regulations when procuring and awarding certain contracts.

The Department of Health and Mental Hygiene'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, reading "Thomas J. Barnickel III".

Thomas J. Barnickel III, CPA
Legislative Auditor

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Background Information

Agency Responsibilities

The Potomac Center is a State residential facility for adult individuals with intellectual disabilities. It is located in Hagerstown, Maryland and serves individuals from the entire State. The Center provides services intended to maximize the physical, intellectual, emotional, and social development of individuals who have borderline to profound intellectual disabilities. It also provides habilitative services to expedite the return of individuals to a less restrictive environment. Furthermore, the Center operates a Transitions Program to serve individuals who have both intellectual disabilities and mental illness and to provide a therapeutic habilitation model before discharge to the community.

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 residents. During fiscal year 2013, the Center had an actual average daily population of 50 residents. According to the State's records, the Center's fiscal year 2013 expenditures totaled approximately \$11.3 million.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated July 7, 2010. We determined that the Center satisfactorily addressed this finding.

Findings and Recommendations

Payroll

Finding 1

Controls over critical adjustments to the Potomac Center's payroll were not sufficient.

Analysis

The Center's procedures for verifying the propriety of payroll adjustments were not sufficient. As a result, there was a lack of assurance that critical adjustments, such as payments to former employees for accumulated leave, were proper. Specifically, the employee responsible for approving automated time reports submitted to the Comptroller of Maryland's Central Payroll Bureau for processing did not review supporting documentation for payroll adjustments included on the reports. Rather, this employee reviewed summary spreadsheets of the adjustments that were prepared by the employees who initiated these transactions.

Our test of 10 payroll adjustments totaling \$71,000, disclosed that in 2 cases the Center had improperly calculated payments to former employees for accumulated leave resulting in overpayments totaling \$8,000. For example, one of the employees was overpaid due to a miscalculation in the employee's leave balance at the time of resignation, which should have been detected if the supporting documentation had been reviewed.

According to the State's records, during fiscal year 2013, the Center's payroll expenditures totaled approximately \$8.4 million and adjustments to payroll totaled approximately \$830,000.

Recommendation 1

We recommend that the Center

- a. ensure that critical payroll adjustments are verified to supporting documentation, and**
- b. take appropriate action to recover the aforementioned overpayments.**

Finding 2

A management employee improperly received accident leave payments for an extended period.

Analysis

We identified a Center management employee who received improper accident leave payments totaling approximately \$13,500 over an extended period. In July 2011, the management employee was injured while on the job, and a claim was processed by the third-party administrator for the State of Maryland's self-insured workers' compensation program, which approved the use of 36 days of accident leave. After using the 36 days of authorized leave, the employee continued to receive approximately 20 hours of accident leave each pay period from November 2011 through July 2013, as recorded on the related timesheets. Although the employee's timesheets contained an approving signature, generally the persons approving the timesheets either had left employment or could not be identified by the current timekeepers responsible for posting payroll adjustments. Consequently, the reason why the timesheets were approved without the extended use of accident leave being questioned could not be determined.

Upon our bringing this matter to the Department's attention, the matter was referred to the Department of Health and Mental Hygiene's Office of the Inspector General (OIG) for further review. In August 2013, based on the results of the OIG's investigation, the employee was terminated and the matter was referred to the Office of the Attorney General - Criminal Division. A referral to the Criminal Division does not mean that a criminal act has actually occurred or that criminal charges will be filed.

Recommendation 2

We recommend that the Center

- a. monitor the use of accident leave to ensure that only authorized leave is taken, and**
- b. ensure timesheet are thoroughly reviewed and approved by only authorized supervisory personnel.**

Procurement

Finding 3

The Center did not comply with State Procurement Regulations when procuring and awarding certain contracts.

Analysis

The Center did not always comply with State Procurement Regulations when procuring and awarding contracts. Our test of eight contracts totaling approximately \$1.4 million disclosed the following conditions:

- The Center artificially split the procurement of services totaling \$49,910 into two smaller contracts of \$24,955 each to avoid the required approvals for procurements valued at \$25,000 or more. These contracts covered the period from March 2011 through March 2012. We were advised by a Center management employee that this was done in order to keep the contracts within the Center's authorized procurement delegation limits.
- The Center did not award a three-year service contract to the lowest bidder. After the aforementioned contracts expired in March 2012, the Center competitively bid the contract and awarded a three-year contract totaling \$179,400 to the same vendor to provide these services. However, the vendor with the lowest bid (\$116,220) was not selected to perform the work because it was not certified as a small business. The Center had designated this procurement as a small business reserve procurement; however, this designation was not disclosed in the related invitation for bids (IFB), as required.
- The Center had not published awards for four contracts totaling \$1.3 million on *eMaryland Marketplace*, as required.

State Procurement Regulations prohibit procurements from being intentionally split to circumvent procurement requirements. Additionally, State Procurement Regulations state that a bid may not be evaluated for any requirement or criterion not disclosed in the IFB. The Regulations further state that when designating a procurement as a small business reserve procurement, the solicitation must include a notice that only certified small business vendors are eligible for award of the contract. State Procurement Regulations also require that contract awards greater than \$25,000 be published on *eMaryland Marketplace* within 30 days of the award.

Recommendation 3

We recommend that the Center comply with State Procurement Regulations by

- a. not artificially splitting procurements to avoid required approvals;**
- b. including the required notice in the IFB for small business reserve procurements, when applicable;**
- c. ensuring that contract award decisions are made in a manner consistent with the IFB requirements; and**
- d. publishing contract awards on *eMaryland Marketplace* as required.**

Audit Scope, Objectives, and Methodology

We have audited the Potomac Center, a unit of the Department of Health and Mental Hygiene's Developmental Disabilities Administration, for the period beginning March 22, 2010 and ending June 9, 2013. 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. We also determined the 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. The areas addressed by the audit included procurements and disbursements related to operating expenditures, payroll, patient funds, working fund, corporate purchasing cards, and equipment inventories.

To accomplish our objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of the Center'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) and the State's Central Payroll Bureau (payroll data), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). 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.

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 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 report also includes a finding regarding 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 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 – Joshua M. Sharfstein, M.D., Secretary

January 6, 2014

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

Dear Mr. Barnickel III:

Thank you for your letter of December 18, 2013 regarding the audit report for the Department of Health and Mental Hygiene, Developmental Disabilities Administration's (DDA) Potomac Center for the period beginning March 22, 2010 and ending June 9, 2013. Listed below are the Administration's responses to the audit findings.

Finding 1:

Controls over critical adjustments to the Potomac Center's payroll were not sufficient.

Auditor's Recommendation:

We recommend that the Center

- a. ensure that critical payroll adjustments are verified to supporting documentation, and
- b. take appropriate action to recover the aforementioned overpayments.

Administration's Response:

We concur with the auditor's findings and recommendations. This is not a repeat finding.

- a) We immediately began the plan of correction in July 2013 by ensuring that critical payroll adjustments made by a payroll representative are verified to attached documentation, and then reviewed and approved by a separate department, primarily a Fiscal management employee or Administration designee in her absence.

- b) We began the plan of correction in September 2013. Under this plan, the Center sent out letters to the identified employees, as instructed by Maryland's Central Collections Unit (CCU), to request recovery of the overpayments. Overpayments have been recovered from one employee. Recovery of another overpayment is pending correspondence through an attorney's office with the CCU. We expect to recover the remaining overpayments within a 6 month timeframe, or by March 2014.

Finding 2:

A management employee improperly received accident leave payments for an extended period.

We recommend that the Center

- a. monitor the use of accident leave to ensure that only authorized leave is taken, and
- b. ensure timesheet are thoroughly reviewed and approved by only authorized supervisory personnel.

Administration's Response:

We concur with the auditor's findings and recommendations. This is not a repeat finding.

- a) Beginning July 2013, the Center verifies the use of accident leave with direct verbal communication and written documentation attached from the third party workers' compensation vendor.
- b) The practice was reaffirmed in July 2013 that timesheets, and supporting documentation, are thoroughly reviewed and approved only by authorized supervisory personnel. Payroll representatives are not permitted to enter time without checking for appropriate signature and documentation.

Finding 3:

The Center did not comply with State Procurement Regulations when procuring and awarding certain contracts.

We recommend that the Center comply with State Procurement Regulations by

- a. not artificially splitting procurements to avoid required approvals;
- b. including the required notice in the IFB for small business reserve procurements, when applicable;
- c. ensuring that contract award decisions are made in a manner consistent with the IFB requirements; and
- d. publishing contract awards on eMaryland Marketplace as required.

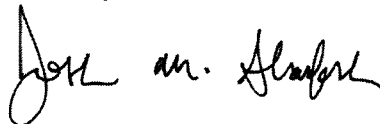
Administration's Response:

We concur with the auditor's findings and recommendations. This is not a repeat finding.

- a) Our plan of correction began with an immediate review with the Center's Procurement Officer, emphasizing the need to schedule contracts in a timely fashion to avoid short, extended contract term needs. Additionally, the COO began Procurement training in December 2013 to serve as a back up to the sole procurement officer.
- b) For any applicable need in the future, the Center will include the required notice in the IFB for small business reserve procurements.
- c) All contract award decisions by the Center will be made in a manner consistent with the IFB requirements.
- d) The Office of Procurement and Support Services will publish contract awards on eMaryland Marketplace as required. This has been completed for the identified need and will be the course of action moving forward.

Thank you again for your correspondence. If you have any questions or require additional information, please contact me at 410-767-4639 or Thomas V. Russell, Inspector General for the Department, at 410-767-5862.

Sincerely,

A handwritten signature in black ink, appearing to read "Josh M. Sharfstein".

Joshua M. Sharfstein, M.D.
Secretary

Cc: Mr. Thomas V. Russell, Inspector General, DHMH
Mr. Ellwood L. Hall, Jr., Assistant Inspector General, Audits, DHMH
Ms. Robin Weagley, Director, Potomac Center
Ms. Gayle Jordan-Randolph, Deputy Secretary, Behavioral Health and Disabilities, DHMH
Mr. Patrick Dooley, Acting Director, DDA
Ms. Rianna P. Brown, Chief of Staff, Behavioral Health and Disabilities, DHMH
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