

Audit Report

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

December 2009

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**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

December 22, 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 Rosewood Center, a unit of the Department of Health and Mental Hygiene, for the period beginning May 12, 2008 and ending June 30, 2009, the date that Rosewood Center was closed. Rosewood provided treatment services to developmentally disabled individuals.

Our audit disclosed deficiencies that precluded effective financial control over the Center's closeout process with respect to equipment, bank accounts, and certain donated funds. For example, we noted that the Center did not perform an inventory of equipment, prior to the liquidation process, to help account for the proper disposition of the equipment during the liquidation. Our audit also disclosed that the Center lacked documentation to support the propriety of certain corporate purchasing card transactions.

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,

**Bruce A. Myers, CPA**  
Legislative Auditor



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## **Background Information**

### **Agency Responsibilities**

Rosewood Center is located in Baltimore County and is part of the Department of Health and Mental Hygiene's Developmental Disabilities Administration. Until its closure in June 2009, the Center provided treatment services to developmentally disabled individuals. According to the State's records, the Center's expenditures totaled approximately \$29.8 million during fiscal year 2009.

During fiscal year 2008, a decision was made to consolidate the Administration's facilities, due to a reduction in the number of clients requiring services, and to eliminate the costs to maintain these facilities. The Administration initiated procedures to close the Center and, as of June 30, 2009, all clients had been transferred from the Center to alternative living facilities (such as to other State facilities) commensurate with their needs.

As of September 17, 2009, we were advised that the State was pursuing several potential options for the Center's land and facilities, but no decision had been finalized.

## Findings and Recommendations

### Equipment

#### **Finding 1**

**Certain recordkeeping and inventory deficiencies hindered adequate control over the equipment liquidation process.**

#### **Analysis**

Certain recordkeeping and inventory deficiencies hindered adequate control over equipment during the liquidation. According to its detail records, approximately 2,994 items, with an inventory book value totaling \$1.9 million, remained at the Center as of June 30, 2009. For example, our review disclosed the following conditions:

- Physical inventories of equipment were not conducted and, therefore, were not used in the liquidation process. Specifically, the last inventory of equipment was conducted in fiscal year 2007, a year before the liquidation process was initiated. As a result, there was a lack of assurance that all Center equipment on hand prior to the liquidation was properly accounted for.
- Certain equipment could not be located. Specifically, our test of 10 items, totaling \$37,533, that were recorded on the detailed records as of June 30, 2009, disclosed that 4 items, totaling \$18,301, could not be located. The Center's management advised us that this equipment may have been transferred to other Department of Health and Mental Hygiene (DHMH) units, but it could not provide us with documentation to substantiate the transfers.

We were advised by Center management that all remaining equipment will be disposed of over the next several months.

#### **Recommendation 1**

**We recommend that DHMH**

- a. ensure, for the Center and for future agency closings, that there is adequate accountability for all equipment to facilitate the liquidation process;**
- b. ensure its facilities perform physical inventories, as required; and**
- c. investigate the aforementioned missing items and take appropriate corrective action.**

## Donated Funds

### **Finding 2**

**The Center lacked sufficient documentation to support the disposition of donated funds.**

#### **Analysis**

The Center lacked sufficient documentation to support that donated funds were used as intended. As of June 30, 2008, the value of the donated funds totaled \$580,102, the vast majority of which was a gift from one donor to be used to benefit clients. By June 30, 2009, virtually all of these funds were spent.

For example, according to the State's accounting records, approximately \$143,000 was spent on client medical equipment, which Center management advised us was for wheelchairs. Center management also advised us that the wheelchairs were to be used by the clients in their new places of residence but it could not provide documentation to substantiate that the clients actually received the wheelchairs. In addition, the Center disbursed \$6,000 directly to a private facility to purchase items, such as bedroom furniture, for clients. However, the Center did not obtain documentation (such as copies of invoices) to ensure the equipment was actually purchased by these facilities and was being used for the clients.

#### **Recommendation 2**

**We recommend that DHMH determine the disposition of all items purchased with donated funds.**

## Disbursements

### **Finding 3**

**The Center could not document the disposition of certain bank accounts and the propriety of certain corporate purchasing card transactions.**

#### **Analysis**

The Center lacked documentation to support the disposition of certain bank accounts and the propriety of certain corporate purchasing card transactions. Specifically, our review disclosed the following conditions:

- The Center had not performed a formal accounting of all of its funds. Specifically, the Center could not provide us with all bank statements in the audit period for its three working fund accounts and for the client funds.



Furthermore, the Center did not perform monthly bank reconciliations and/or fund compositions during the audit period to ensure that all funds were properly accounted for. For example, the three working fund bank accounts were not reconciled during our audit period. As a result, the Center lacked assurance regarding the proper disposition of these funds. According to its records, as of July 30, 2009, the Center still retained the client working fund advance of \$13,000, and client funds of approximately \$56,000. We were advised by Center management that, after these accounts have been reconciled, the advance will be remitted to the Comptroller and the client funds will be distributed to the respective clients.

- The Center lacked documentation to support the propriety of certain corporate purchasing card transactions for the purchase of gift cards. Our audit disclosed that, on two separate occasions, the Center spent a total of \$6,350 for 254 gift cards. These purchases were artificially split into a larger number of transactions (generally \$500 each), circumventing the cardholder limit of \$2,500. In addition, although DHMH advised that it authorized the purchase of gift cards as employee incentives, the Center was unable to provide us with a complete listing of employees who received the gift cards, and documentation that the cards were distributed as intended. As a result, there is a lack of assurance that the gift cards were used for their intended purposes. Effective November 2008, the Comptroller of Maryland prohibits the purchase of gift cards with corporate purchasing cards.

### **Recommendation 3**

**We recommend that DHMH**

- a. ensure the proper disposition of the aforementioned bank accounts to ensure that all funds were used properly and remaining funds were properly accounted for, and**
- b. determine the propriety of the aforementioned gift card purchases.**

## **Audit Scope, Objectives, and Methodology**

We have audited the Rosewood Center of the Department of Health and Mental Hygiene for the period beginning May 12, 2008 and ending June 30, 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 the Center's financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. The areas addressed by the audit included the liquidation of Center assets, purchases and disbursements, payroll, and bank accounts.

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 the Center'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.

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 findings that we consider 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. Our audit did not disclose any significant instances 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 Department's response to our findings and recommendations, on behalf of the Center, 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 – John M. Colmers, Secretary

December 21, 2009

Mr. 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 December 7, 2009 letter that included the draft audit report for the Developmental Disabilities Administration – Rosewood Center for the period beginning May 12, 2008 and ending June 30, 2009. Attached you will find the Administration's response and plan of correction that addresses each audit recommendation. I will work with the Administration to promptly address all audit exceptions. In addition, our Office of the Inspector General 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) 767-6505 or Thomas Russell of my staff at (410) 767-5862.

Sincerely,

John M. Colmers  
Secretary

cc: Renata Henry, Deputy Secretary, Behavioral Health and Disabilities, DHMH  
Valerie Roddy, Chief of Staff to the Deputy Secretary, Behavioral Health and Disabilities, DHMH  
Thomas V. Russell, Inspector General, DHMH  
Ellwood L Hall, Jr., Assistant Inspector General, DHMH  
Wendy Kronmiller, Chief of Staff to the Office of the Secretary, DHMH  
Michael S. Chapman, Executive Director, Developmental Disabilities Administration, DHMH

## **Findings and Recommendations**

### **Equipment**

#### **Finding 1**

**Certain recordkeeping and inventory deficiencies hindered adequate control over the equipment liquidation process.**

#### **Recommendation 1**

**We recommend that DHMH**

- a. ensure, for the Center and for future agency closings, that there is adequate accountability for all equipment to facilitate the liquidation process;**
- b. ensure its facilities perform physical inventories, as required; and**
- c. investigate the aforementioned missing items and take appropriate corrective action.**

#### **Administration Response:**

The Administration concurs as follows:

Regarding recommendation (a), the DHMH Central Services Division will conduct a baseline inventory prior to any future closings of a DHMH facility in order to ensure accountability and facilitate the liquidation process. It should be noted that the Center performed inventory as each building closed and all required forms were completed at that time. Most of the surplus inventory was transferred to the other DHMH facilities with the remaining being written-off. A physical inventory is required every three years; the last one for Rosewood was completed in FY2007 and the next one was due in FY2010. The detailed records were reconciled to the control account as of 03/31/09 and the DHMH Central Services Division is reviewing the control account and existing records to reconcile any difference. This should be completed by 05/31/10.

With reference to recommendation (b), the DHMH Central Services Division will require DHMH facilities to submit a Reconciliation of Inventory Records on an annual basis as required in Department of General Services Inventory Control Manual, Section II, Number .05 Controls for Materials and Supplies, Letter C. Reconciliation of Inventory Records..

Regarding recommendation (c), the DHMH Central Services reviewed the control account, located two of the missing items noted, and continues to pursue locating the remaining two items. If the Department is unable to locate the missing items

after performing its investigation, a missing equipment report will be provided to DGS for removal from the inventory records.

## **Donated Funds**

### **Finding 2**

**The Center lacked sufficient documentation to support the disposition of donated funds.**

### **Recommendation 2**

**We recommend that DHMH determine the disposition of all items purchased with donated funds.**

### **Administration Response:**

The Administration concurs with the recommendation and determined the disposition of the items purchased with donated funds. Original receipts for purchases made by the private facility have been obtained by the Department documenting the purchase of items for use by former Rosewood consumers. Documentation pertaining to the wheelchairs and related equipment purchased with donated funds has been reviewed by the Department. The review found that the wheelchairs are with the consumers. The remaining \$28,740 of the bequest not expended on Rosewood consumers was reverted to the State general fund during the fiscal year 2009 closeout of Rosewood Center.

## **Disbursements**

### **Finding 3**

**The Center could not document the disposition of certain bank accounts and the propriety of certain corporate purchasing card transactions.**

### **Recommendation 3**

**We recommend that DHMH**

- a. ensure the proper disposition of the aforementioned bank accounts to ensure that all funds were used properly and remaining funds were properly accounted for, and**
- b. determine the propriety of the aforementioned gift card purchases.**

### **Administration Response:**

The Administration concurs with the recommendations.

Regarding recommendation (a), the Administration has obtained statements from the banks and is reviewing Rosewood Center documentation to determine the

propriety of transactions and to account for the funds. This should be completed by April 30, 2010.

Regarding recommendation (b), the Administration obtained significant information clearly indicating that the gift cards were distributed as intended.

AUDIT TEAM

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