

Audit Report

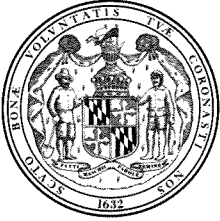
**Department of Health and Mental Hygiene
Deer's Head Hospital Center**

April 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

April 10, 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 Deer's Head Hospital Center (DHHC) of the Department of Health and Mental Hygiene for the period beginning December 20, 2010 and ending January 5, 2014. DHHC provides chronic care and treatment to patients requiring a hospital-level rehabilitation program, long-term nursing home care, and inpatient and outpatient kidney dialysis services.

Our audit did not disclose any findings that warrant mention in this report.

We wish to acknowledge the cooperation extended to us by DHHC during the course of this audit.

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Deer's Head Hospital Center (DHHC), which is located in Salisbury, Maryland, provides chronic care and treatment to patients requiring a hospital-level rehabilitation program, long-term nursing home care, and inpatient and outpatient kidney dialysis services. During fiscal year 2013, DHHC had a licensed capacity of 146 inpatients, a budgeted average daily population of 73 inpatients, and an actual average daily population of 62 inpatients. DHHC's dialysis unit also provided 9,959 dialysis treatments to 103 patients. DHHC is accredited by the Joint Commission on Accreditation of Healthcare Organizations. According to the State's records, during fiscal year 2013, DHHC expenditures totaled approximately \$22 million.

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 May 26, 2011. We determined that DHHC satisfactorily addressed these findings.

Findings and Recommendations

Our audit did not disclose any significant deficiencies in the design or operation of DHHC's internal control. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations. A less significant finding was communicated to DHHC that did not warrant mention in this report.

A draft copy of this report was provided to DHHC. Since there are no recommendations in this report, a written response was not necessary.

Audit Scope, Objectives, and Methodology

We have audited the Deer's Head Hospital Center (DHHC) of the Department of Health and Mental Hygiene (DHMH) for the period beginning December 20, 2010 and ending January 5, 2014. 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 DHHC's financial transactions, records and internal controls, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings included 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 cash receipts, accounts receivable, procurements and disbursements, materials and supplies, equipment, and payroll.

To accomplish our audit objectives, our procedures included inquiries of appropriate personnel, inspections of documents and records, observations of DHHC'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.

DHHC provides certain support services (billing and collection for kidney dialysis services) to the DHMH – Western Maryland Center. These support services are included within the scope of the audit of DHHC.

DHHC'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 the 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.

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