

Audit Report

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**Maryland Department of Health  
Intellectual Disabilities Residential Centers**

**Holly Center and Potomac Center**

October 2022

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**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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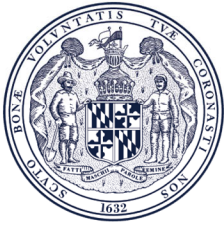
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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber  
Executive Director

Gregory A. Hook, CPA  
Legislative Auditor

October 24, 2022

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee  
Delegate Mark S. Chang, House Chair, Joint Audit and Evaluation Committee  
Members of Joint Audit and Evaluation Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the following units of the Maryland Department of Health (MDH): the Holly Center for the period beginning September 28, 2018 and ending June 30, 2021 and the Potomac Center for the period beginning May 18, 2017 and ending June 30, 2021, which includes the Secure Evaluation and Therapeutic Treatment (SETT) Program for the period beginning May 1, 2018 and ending June 30, 2021. These units, collectively referred to as the Intellectual Disabilities Residential Centers (IDRCs), provide comprehensive services to maximize the physical, intellectual, emotional, and social development of individuals who have borderline to profound intellectual disabilities.

In our previous audits of the IDRCs, we issued separate audit reports for the Holly Center, the Potomac Center, and included SETT as part of our audit of the Developmental Disabilities Administration (DDA). Effective July 1, 2020, the MDH transferred oversight of the IDRCs from the DDA budgetary unit to the MDH Operations Administration budgetary unit. To promote audit efficiency, we have consolidated our review of the IDRCs into one audit, with our recommendations being made to MDH Healthcare System under the MDH Operations Administration, on behalf of the IDRCs.

Our audit disclosed that the Potomac Center obtained nursing services using contracts that had been fully expended and/or had expired. This resulted in the Center paying the vendor an additional \$310,546 more than the original agreements and circumventing State Procurement regulations. We also found

that the related invoices were not adequately verified and were paid using improper payment methods. We also found that the Holly Center did not ensure invoices paid for nursing services agreed to supporting documentation. Further, we found a potential violation of State ethics law and MDH policy. Specifically, 10 Holly Center employees engaged in secondary employment with vendors that provided services to the Center. In addition, 1 of the 10 employees was also responsible for oversight of certain aspects of the contracts, which could present a conflict of interest or the appearance of impropriety.

Additionally, the IDRCs had not established adequate controls over the propriety of payroll transactions. For example, the IDRCs were unable to provide documentation that payroll adjustments had been reviewed prior to submission for Statewide Personnel System processing.

Finally, our audit included a review to determine the status of the finding contained in our preceding report of the Potomac Center. We determined that this finding was satisfactorily addressed. The preceding report of the Holly Center did not contain any findings nor did the respective preceding reports contain any findings relating to SETT financial operations.

MDH Healthcare System's response to this audit, on behalf of the IDRCs, is included as an appendix to this report. We reviewed the response and noted general agreement to our findings and related recommendations. Subsequent to the response receipt, but prior to the issuance of the final report, we contacted MDH staff and obtained additional clarification that satisfactorily resolved all outstanding questions and issues. Consequently, we have concluded that the written responses and additional clarification together indicate that the IDRC's corrective actions identified are sufficient to address all audit issues.

We wish to acknowledge the cooperation extended to us during the audit by the IDRCs. We also wish to acknowledge MDH's and the IDRCs' willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive, flowing style.

Gregory A. Hook, CPA  
Legislative Auditor

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## **Background Information**

### **Agency Responsibilities**

The Maryland Department of Health (MDH) operates two Intellectual Disabilities Residential Centers (IDRCs). The IDRCs are the Holly Center and the Potomac Center, which includes the forensic residential center Secure Evaluation and Therapeutic Treatment (SETT) Program.

- The Holly Center, located in Salisbury, Maryland, provides comprehensive services for individuals with intellectual disabilities that reside in the nine counties of Maryland's Eastern Shore. Additionally, the Holly Center provides certain outpatient services, and coordination and support services to day programs and group homes for the intellectually disabled. As of June 30, 2021, the Holly Center had a licensed capacity of 100 inpatient residents. During fiscal year 2021, the Holly Center had an average daily inpatient population of 49 residents. According to the State's records, the Holly Center's expenditures were approximately \$18.9 million during fiscal year 2021.
- The Potomac Center, located in Hagerstown, Maryland, serves individuals with intellectual disabilities from the entire State. The Potomac Center provides services intended to maximize the physical, intellectual, emotional, and social development of individuals with borderline to profound intellectual disabilities. It also provides habilitative services to expedite the return of individuals to a less restrictive environment. Furthermore, the Potomac 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. As of June 30, 2021, the Potomac Center, had a licensed capacity of 62 residents. During fiscal year 2021, the Potomac Center had an average daily inpatient population of 45 residents. According to the State's records, the Potomac Center's expenditures were approximately \$19.5 million during fiscal year 2021.

MDH relocated SETT from the Springfield Hospital Center to the Potomac Center campus effective January 2020. SETT provides evaluation, assessment, and active treatment to people with intellectual disabilities and court involvement. As of June 30, 2021, SETT has a licensed inpatient capacity of 32 residents. During fiscal year 2021, SETT had an average daily inpatient population of 24 residents. According to the State's records, SETT expenditures were \$7.4 million during fiscal year 2021.

## **Organizational and Audit Approach Changes**

Effective July 1, 2021, MDH transferred oversight of the IDRCs from the Developmental Disabilities Administration (DDA) budgetary unit to the MDH Operations Administration budgetary unit. In our previous audits of the IDRCs, we issued separate audit reports for the Holly Center and the Potomac Center with SETT included within our audits of the MDH Office of the Secretary (for payroll processing) and DDA (for non-payroll related services). In response to the change in oversight and to promote audit efficiency, we have consolidated our review of the IDRCs into one audit. Consequently, our audit report recommendations will be made to the MDH Healthcare System under the MDH Operations Administration, on behalf of the IDRCs.

## **Status of Finding From Preceding Audit Reports**

Our audit included a review to determine the status of the finding contained in our preceding audit report of the Potomac Center dated January 3, 2018. We determined that the Potomac Center satisfactorily addressed this finding. The preceding audit report of the Holly Center dated February 12, 2019, did not contain any findings. The audit reports of the MDH – Office of the Secretary and Other Units dated July 14, 2020 and MDH –Developmental Disabilities Administration dated July 8, 2019 did not contain any findings relating to SETT financial operations.

## Findings and Recommendations

### Nursing Services Contracts and Disbursements

#### **Finding 1**

**The Potomac Center obtained nursing services using contracts that had been fully expended and/or expired. In addition, the related invoices were not adequately verified and were paid using improper payment methods.**

#### **Analysis**

The Potomac Center continued to obtain nursing services from one vendor after the vendor's contracts were expended and/or expired. In addition, the Center's review of the related invoices did not identify charges that had been billed in excess of the contractual rate, and the invoices were paid using improper payment methods. The Developmental Disabilities Administration initially procured these nursing services from one vendor using two contracts (one for the Potomac Center and one for the Secure Evaluation Therapeutic Treatment (SETT) Program), each valued at \$49,320 (or \$98,640 in total). The Potomac Center was responsible for the payment and monitoring of these nursing services for both Potomac Center and SETT. Our review disclosed the following:

- The Potomac Center continued to use the two contracts after the contract values had been fully expended and/or the contract had expired, without a formal contract extension or required approvals. We determined that the vendor was paid \$310,546 more than the two contracts' combined maximum value. Specifically, during the contract period of April 17, 2020 through August 31, 2020, the Potomac Center paid the vendor \$10,361 in excess of the combined contracts' value and continued to use the contracts up to 10 months after they expired, incurring an additional cost of \$300,185 (approximately 3 times the initial contract value).

Based on the amount ultimately paid to the vendor, we concluded that the Potomac Center circumvented State regulations for contracts valued in excess of \$50,000, which requires State agencies to obtain approval from the Department of General Services, publish the contracts on *eMaryland Marketplace*, and obtain approval from the Board of Public Works for purchases over \$200,000. In addition, Potomac Center circumvented the MDH requirement that contracts exceeding \$50,000 were to be procured centrally through its Office of Contract Management and Procurement.



- Although Potomac Center management advised that vendor invoices were reviewed and approved by a documented signoff of the hours worked and the hourly (unit) price charged, the results of our testing indicated that it was ineffective. Specifically, our test of seven approved invoices disclosed that for each invoice the vendor charged a rate that exceeded the rate specified in the existing and then expired contract by \$0.25 per hour. Although we did not verify the occurrence of this billing error for all invoices paid; if the vendor consistently charged the improper rate during the period of April 2020 through June 2021, using total hours billed we extrapolated the impact to be a total overpayment of approximately \$3,000. The Potomac Center was unaware of these overcharges and paid the invoices in full.
- The Potomac Center payments to the vendor, which totaled \$409,186, were made using methods that violated State policies and procedures, and without matching the payments to a contract/purchase order, as required. Specifically, the Potomac Center made numerous payments to the vendor totaling \$360,972 using the State's corporate purchasing cards (CPC) and another \$48,214 using direct vouchers. The use of these payment methods violated State policies, which generally require payment methods that include a matching of the payments to a contract/purchase order, which would preclude the use of CPC for this activity.

Specifically, the Comptroller of Maryland's (COM) *Corporate Purchasing Card Program Policy and Procedures Manual* provides that the cards are intended to help agencies obtain small dollar value items in a more efficient and cost effective manner and cards will generally have a single purchase limit up to \$5,000. We confirmed our understanding of CPC use with COM management personnel. In regard to the direct voucher payments, the Department of Information Technology's *Internal Control and Security Policy and Procedures Manual* restricts this payment method to specific types of transactions, such as, utilities, tuition reimbursement, or travel.

### **Recommendation 1**

**We recommend that the MDH Healthcare System ensure that the Potomac Center**

- a. discontinue the practice of paying a vendor after a contract has been fully expended without an approved contract modification,**
- b. verify invoice charges to contractual billing rates, and**
- c. ensure the appropriate payment method is used to ensure that invoices are matched to the corresponding contract/purchase order prior to payment.**

**Finding 2**

**The Holly Center prepayment review of amounts invoiced for nursing services was not sufficiently comprehensive.**

**Analysis**

The Holly Center could not support certain amounts invoiced and paid for nursing services. Nursing services were generally provided by two vendors that were paid \$738,000 and \$276,000 during our audit period. We were advised that a Holly Center employee verified the hours charged on the invoices to the hours recorded on both vendor employee sign-in sheets and shift schedules; however, the employee did not review the timesheets prepared by the vendor employees and signed by Holly Center employees supervising their work. These timesheets, approved by Holly Center supervisory personnel, would be the appropriate primary document for verification of hours billed, and should be used in conjunction with the other mentioned documents.

In addition, our test of 4 approved invoices<sup>1</sup> totaling approximately \$66,000, which included charges for 240 shifts worked by 28 employees, disclosed that the sign-in sheets and/or shift schedules for both vendors' employees did not support the amounts invoiced, raising questions about the aforementioned reviews. Specifically, for 102 shifts the vendor employees did not sign the sign-in sheets or were not listed on the shift schedules and for 17 shifts the employee did not sign the sign-in sheet and were also not listed on the shift schedules. The missing support was not noted during the Holly Center's reviews of the invoices. We subsequently obtained timesheets prepared by the vendor employees for the aforementioned invoices (which were not used in the Holly Center verification process) and determined that the amounts charged were generally supported. These conditions support the need for all reviews to include approved timesheets prior to payment.

The Comptroller of Maryland's *Accounting Procedures Manual* requires that agency personnel verify invoices submitted to supporting documentation prior to payment to ensure that billed goods/services were received.

**Recommendation 2**

**We recommend that the MDH Healthcare System ensure that the Holly Center obtains and verifies supporting documentation, including approved timesheets, against vendor invoices prior to payment.**

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<sup>1</sup> We selected 3 invoices from the first vendor and 1 invoice from the other vendor.

## Possible Ethics Violations

### **Finding 3**

**Ten Holly Center employees potentially violated State ethics law and MDH policy by having secondary employment with vendors that provided services to the Holly Center, including one employee that participated in the oversight of these vendors.**

### **Analysis**

Ten Holly Center employees potentially violated State ethics law by having secondary employment with two vendors that provided nursing services to the Holly Center, including one employee that participated in the oversight of these vendors. In addition, these employees may have violated MDH policy by not reporting their secondary employment to MDH's Office of Internal Controls and Audit Compliance (IAC) as required. Furthermore, five of these employees recorded hours on their Holly Center State employee timesheets that overlapped with the hours billed by the vendors for their services.

- During our audit, Holly Center management advised us that 10 Holly Center employees had secondary employment with 2 vendors that provided nursing services to the Holly Center. Our review substantiated the secondary employment of 9 of these employees, while we concluded that 1 did not actually have secondary employment with the vendors. In addition, we identified 1 additional employee that had secondary employment with both of the vendors. Holly Center management advised us that it was aware of this employee's secondary employment, but had not disclosed it to us due to an oversight.

We reviewed each invoice from these vendors during our audit period and identified 83 invoices totaling approximately \$812,000 that included charges for time worked on 473 shifts by 9 of the 10 employees.<sup>2</sup> The secondary employment with a vendor doing business with the Holly Center may violate State ethics law. In addition, although Holly Center management was aware of the secondary employment, the secondary employment was not reported to MDH's IAC, as required by MDH policy.

- One employee was responsible for oversight of certain aspects of the contracts, which could present a conflict of interest or the appearance of a conflict. We reviewed all of the vendor employee timesheets for the hours

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<sup>2</sup> The remaining employee may have had secondary employment with the vendor, but did not provide services to the Holly Center.

worked by the nine employees and noted that one employee, in their role as a Holly Center employee, approved the timesheets used by the vendor to support amounts invoiced. For example, our review of 8 invoices that included charges for the Holly Center employees with secondary employment disclosed that the supervisory employee approved 20 vendor timesheets in their role as a Holly Center employee. Although this employee did not approve their own timesheet, participation in the oversight of a contract with which they had secondary employment may violate State ethics laws.

- Our review of the invoices containing charges for the aforementioned employees disclosed that 5 of the employees (including the supervisory employee above) recorded hours on their Holly Center State employee timesheets that overlapped with the hours they were paid while working at the Holly Center as employees of the vendors. Specifically, our analysis identified eight timesheets with a total of 32.5 overlapping hours ranging from 30 minutes to 8 hours. These employees received \$722 in pay from the Holly Center for these overlapping hours and the Holly Center paid the vendors \$1,274 for the same hours.

Senior management personnel at the State Ethics Commission advised us that the aforementioned secondary employment and participation activities could potentially violate certain provisions of State ethics law. Specifically, Section 5-502 of the General Provisions Article of the Annotated Code of Maryland prohibits an employee from having secondary employment with a business entity that has entered into a contract with the employee's agency. Section 5-501 of the Article prohibits an employee from participating in matters involving a business entity if the employee has secondary employment with the business entity. Any final decision as to whether violations of State ethics law occurred would ultimately be made by the Commission.

### **Recommendation 3**

**We recommend that the MDH Healthcare System**

- a. refer the secondary employment and participation matters to the Commission and take appropriate action based on the Commission's decisions and direction,**
- b. ensure that secondary employment is reported to MDH's IAC as required by MDH policy, and**
- c. pursue recovery of the funds paid for overlapping hours as appropriate.**

## Payroll

### **Finding 4**

**The Potomac Center and the Holly Center had not established adequate controls to ensure the propriety of payroll transactions, including adjustments to employee pay and leave balances.**

### **Analysis**

The Potomac Center and the Holly Center, referred collectively as the Intellectual Disabilities Residential Centers (IDRCs), had not established adequate controls over the processing of payroll transactions on the Statewide Personnel System (SPS). According to the State's records, the payroll-related expenditures of the two IDRCs totaled approximately \$38.4 million during fiscal year 2021.

- The IDRCs could not provide documentation that payroll adjustments were reviewed prior to submission to the MDH Office of Human Resources for processing in SPS. In addition, the IDRCs did not have a procedure to verify the propriety of leave balance adjustments made by 10 IDRC employees directly in SPS. Finally, the IDRCs did not use available system output reports of all payroll and leave adjustments recorded to ensure that only authorized adjustments had been processed.

During the IDRCs' respective audit periods they processed 524 payroll adjustments (such as retroactive payroll payments) that changed employee pay by a total of \$165,830 (increase of \$149,205 and decrease of \$16,625).

During this period, the IDRCs also processed 1,033 leave adjustments (such as leave bank enrollments) that changed employee leave balances by 45,240 hours (increase of 34,358 hours and decrease of 10,882 hours). Our test of leave and payroll adjustments processed by the IDRCs did not disclose any material improper transactions.

- The IDRCs did not verify that the total payroll, as reflected in the Central Payroll Bureau (CPB) payroll registers, agreed with SPS payroll summary reports reflecting the amount that should have been paid based on each employee's approved work time and salary information. Generally, employees recorded their work time directly into SPS for online approval by their assigned supervisors or had their work time entered by a timekeeper from paper documentation. Payroll payments were processed by CPB based on the approved work time for the pay period and the salary information reflected in SPS.

The IDRCs advised that they were not aware of the need to conduct the verifications. The verification is important because certain unique SPS design features often result in differences between the CPB and SPS. For example, we compared each IDRC's CPB payroll register with the SPS payroll summary reports for the pay period ending June 1, 2021 and noted that CPB reported payroll expenses were \$43,600 greater than SPS. The IDRCs could not readily explain the difference.

Prudent business practices dictate that a documented, independent review of payroll adjustments should be made for validity, completeness, authorization, accuracy, and proper classification. In addition, the Comptroller of Maryland's *Accounting Procedures Manual* requires agencies to verify that the total payroll, as reflected in the CPB payroll registers, agrees with SPS payroll summary reports.

#### **Recommendation 4**

**We recommend that the MDH Healthcare System**

- a. ensure that payroll adjustments are reviewed and approved by independent supervisory personnel, and that this approval is documented, before submission for processing;**
- b. independently verify SPS output reports of payroll and leave balance adjustments to ensure only authorized adjustments had been processed; and**
- c. reconcile total payroll as reflected in CPB payroll registers each pay period with SPS payroll summary reports, investigate any differences, and ensure that these reconciliations are documented.**

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

We have conducted a fiscal compliance audit of the following units of the Maryland Department of Health (MDH): the Holly Center for the period beginning September 28, 2018 and ending June 30, 2021 and the Potomac Center for the period beginning May 18, 2017 and ending June 30, 2021, which includes the forensic residential center Secure Evaluation and Therapeutic Treatment (SETT) Program for the period beginning May 1, 2018 and ending June 30, 2021. These units are collectively referred to as the Intellectual Disabilities Residential Centers (IDRCs).

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 IDRCs 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 certain procurements and disbursements for operating expenditures, corporate purchasing cards, and certain payroll activities. We also determined the status of the finding included in our preceding audit report of the Potomac Center.

Our audit did not include certain support services provided to the IDRCs by MDH – Office of the Secretary. These support services (such as certain other payroll and procurement activities, maintenance of accounting records, and related fiscal functions) are included within the scope of our audit of MDH – Office of the Secretary and Other Units.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period, as detailed above for the various units audited, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of operations at the IDRCs. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us 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), 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 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.

Under MDH Healthcare System, a part of MDH Operations Administration, the IDRCs' managements are 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. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to the IDRCs, were considered by us during the course of this audit.

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 the IDRCs' ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to the IDRCs that did not warrant inclusion in this report.

The response from MDH Healthcare System, on behalf of the IDRCs, 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 MDH regarding the results of our review of its response.

## APPENDIX



*Larry Hogan, Governor · Boyd K. Rutherford, Lt. Governor · Dennis R. Schrader, Secretary*

October 13, 2022

Mr. Gregory A. Hook, CPA  
Legislative Auditor  
Office of Legislative Audits  
The Warehouse at Camden Yards  
351 West Camden Street, Suite 400  
Baltimore, MD 21201

Dear Mr. Hook:

Enclosed, please find the responses to the draft audit report on the Maryland Department of Health – the Holly Center for the period beginning September 28, 2018 and ending June 30, 2021 and the Potomac Center for the period beginning May 18, 2017 and ending June 30, 2021, which includes the Secure Evaluation and Therapeutic Treatment Program for the period beginning May 1, 2018 and ending June 30, 2021. These units are collectively referred to as the Intellectual Disabilities Residential Centers.

If you have any questions, please contact Frederick D. Doggett at 410-767-0885 or email at [frederick.doggett@maryland.gov](mailto:frederick.doggett@maryland.gov).

Sincerely,

A handwritten signature in black ink, reading "Dennis R. Schrader".

Dennis R. Schrader  
Secretary

Enclosure

cc: Frederick D. Doggett, Director, Ofc. of Internal Controls, Audit Compliance & Information Security, MDH  
Atif Chaudhry, Deputy Secretary, Operations, MDH  
Bryan Mroz, Director, MDH Healthcare System  
Mabel S. Esh, Director, Holly Center, MDH  
Holly C. Young, Director, Potomac Center, MDH

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Intellectual Disabilities Residential Centers  
Holly Center and Potomac Center**

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**Nursing Services Contracts and Disbursements**

**Finding 1**

**The Potomac Center obtained nursing services using contracts that had been fully expended and/or expired. In addition, the related invoices were not adequately verified and were paid using improper payment methods.**

**We recommend that the MDH Healthcare System ensure that the Potomac Center**

- a. discontinue the practice of paying a vendor after a contract has been fully expended without an approved contract modification,**
- b. verify invoice charges to contractual billing rates, and**
- c. ensure the appropriate payment method is used to ensure that invoices are matched to the corresponding contract/purchase order prior to payment.**

<b>Agency Response</b>	
<b>Analysis</b>	<b>Factually Accurate</b>
<b>Please provide additional comments as deemed necessary.</b>	<p>The MDH Healthcare System, which was established on July 1, 2021 comprises the eleven operating MDH healthcare facilities, including the five adult psychiatric hospitals, the two long term acute care hospitals, the two Regional Institutes for Children and Adolescents, and the two facilities for individuals with intellectual disabilities, which are the subject of this audit report.</p> <p>The IRDCs were brought under the MDH Healthcare System and MDH Operations Administration after the reporting period for this audit.</p> <p>The MDH Healthcare System was established to create opportunities for both standardization of policies and procedures and sharing of resources where appropriate and beneficial to optimize patient care and fiscal responsibility.</p> <p>We are in the process of creating and hiring additional oversight positions for functions such as procurement and financial services to ensure that appropriate procedures are followed consistently moving forward. We are reviewing existing practices to ensure compliance and exploration of opportunities to maximize State purchasing power across</p>

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	<p>the system as a top priority for the next phase of the MDH Healthcare System's development. As completed, we expect that revised standard operating processes and procedures (SOPs) will be reviewed by the MDH Office of Internal Controls, Audit Compliance &amp; Information Security and tested for implementation compliance.</p> <p>Although the purpose of the MDH Healthcare System is to unify the MDH healthcare facilities under one administration, it is important to note that each facility is different and not all policies, procedures, and recommendations will impact every facility in the same way, nor will every facility be able to implement them uniformly. Even among facilities grouped together by the service lines listed above, there are key differences that must be taken into account. We expect those differences will be highlighted as you continue your grouped facility audits.</p> <p>Additionally, the Maryland Department of Health reorganized the Department's procurement unit into the Office of Contract Management &amp; Procurement (OCMP) in early 2021. OCMP's mission is to implement lifecycle contract management and procurement initiatives into all aspects of MDH operations, including for the MDH Healthcare system.</p>		
<b>Recommendation 1a</b>	Agree	<b>Estimated Completion Date:</b>	7/1/2022
<b>Please provide details of corrective action or explain disagreement.</b>	<p>The immediate plan of correction was to hire a Procurement Officer for the Potomac Center/SETT in February 2021 and the Procurement Officer became a Certified Maryland Procurement Officer (CMPO) on August 17, 2021. We have discontinued the practice of paying a vendor after the contract has been fully expended without an approved contract modification or approved exemption. The following improved process for monitoring contracts at Potomac Center has been implemented:</p> <p>The Procurement Officer tracks deadline dates of all contracts in a database shared with Contract Monitor and Department Heads under which the service falls. For long term contracts, the Procurement Officer will send the Contract Monitor reminders one year before a contract ends to start to discuss if a new contract is needed for these services; develop a new contract; or extend the current contract (if applicable). For short term contracts the Procurement Officer will send a reminder two months</p>		

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	before a contract ends. The Chief Financial Officer will monitor and conduct a yearly audit of the process.		
<b>Recommendation 1b</b>	Agree	<b>Estimated Completion Date:</b>	10/15/2022
<b>Please provide details of corrective action or explain disagreement.</b>	<p>The Center concurs with the recommendation. The Chief Financial Officer will develop a Standard Operating Procedure (SOP) for all Contract Monitors to follow by 10/1/2022. The Procurement Officer will review the SOP and the contract with Contract Monitors at the beginning of each contract. This review will include verifying invoices, hours, and details of services. The Contract Monitors will report any discrepancies to the Procurement Officer and the CFO immediately upon finding the discrepancies.</p> <p>As completed, we expect that revised standard operating processes and procedures (SOPs) will be reviewed by the MDH Office of Internal Controls, Audit Compliance &amp; Information Security and tested for implementation compliance.</p>		
<b>Recommendation 1c</b>	Agree	<b>Estimated Completion Date:</b>	10/15/2022
<b>Please provide details of corrective action or explain disagreement.</b>	<p>We have established written procedures that will ensure the appropriate payment method is used to ensure that invoices are matched to the corresponding contract/purchase order prior to payment.</p> <p>As completed, we expect that revised standard operating processes and procedures (SOPs) will be reviewed by the MDH Office of Internal Controls, Audit Compliance &amp; Information Security and tested for implementation compliance.</p>		

**Finding 2**

**The Holly Center prepayment review of amounts invoiced for nursing services was not sufficiently comprehensive.**

**We recommend that the MDH Healthcare System ensure that the Holly Center obtains and verifies supporting documentation, including approved timesheets, against vendor invoices prior to payment.**

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<b>Analysis</b>	<b>Factually Accurate</b>		
<b>Please provide additional comments as deemed necessary.</b>	See overall comments above for Finding 1.		
<b>Recommendation 2</b>	Agree	<b>Estimated Completion Date:</b>	9/30/2022
<b>Please provide details of corrective action or explain disagreement.</b>	<ol style="list-style-type: none"> <li>1. Holly Center has revised their prepayment review process for invoices from agency nursing services. The Chief Financial Officer will provide update training for key personnel.</li> <li>2. Holly Center has revised the daily office policies and procedures regarding agency nursing services contracts.</li> <li>3. The Contract Monitor will maintain comprehensive boards, call logs, assignment sheets and sign in/sign out logs daily.</li> <li>4. The Contract Monitor or Designee will attach copies of the timesheets, boards, assignment sheets and sign in/sign out sheets to all invoices that they review/approve.</li> <li>5. The Chief Financial Officer or designee will review approved invoices and supporting documentation prior to payment processing.</li> <li>6. All discrepancies will be forwarded to the Chief Financial Officer for resolution with the agency. The Chief Financial Officer will correspond via email with the agency, the contract monitor and the procurement director.</li> </ol> <p>As completed, we expect that revised standard operating processes and procedures (SOPs) will be reviewed by the MDH Office of Internal Controls, Audit Compliance &amp; Information Security and tested for implementation compliance.</p>		

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**Possible Ethics Violations**

**Finding 3**  
Ten Holly Center employees potentially violated State ethics law and MDH policy by having secondary employment with vendors that provided services to the Holly Center, including one employee that participated in the oversight of these vendors.

We recommend that the MDH Healthcare System

- a. refer the secondary employment and participation matters to the Commission and take appropriate action based on the Commission's decisions and direction,
- b. ensure that secondary employment is reported to MDH's Office of Internal Controls and Audit Compliance as required by MDH policy, and
- c. pursue recovery of the funds paid for overlapping hours as appropriate.

Agency Response			
<b>Analysis</b>	<b>Factually Accurate</b>		
Please provide additional comments as deemed necessary.			
<b>Recommendation 3a</b>	Agree	<b>Estimated Completion Date:</b>	11/30/2022
Please provide details of corrective action or explain disagreement.	<ol style="list-style-type: none"> <li>1. Holly Center will coordinate with the relevant MDH offices and follow both existing MDH procedures and contact the State Ethics Commission for guidance regarding the secondary employment matter.</li> <li>2. Holly Center will instruct nursing agency service contractors to fill needs list vacancies with non-Holly Center employees.</li> <li>3. Holly Center will send out a notification to all employees to remind them to disclose secondary employment in accordance with MDH's Office of Internal Controls, Audit Compliance and Information Security (IAC/S). Maryland Health-General Article 2-103(b)(6). <a href="https://efds.ethics.maryland.gov">https://efds.ethics.maryland.gov</a></li> <li>4. Holly Center will ask employees to provide Human Resources written confirmation that they have completed the necessary secondary employment disclosure documents.</li> <li>5. Written procedures were established on 7/1/2022</li> </ol>		

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	As completed, we expect that revised standard operating processes and procedures (SOPs) will be reviewed by the MDH Office of Internal Controls, Audit Compliance & Information Security and tested for implementation compliance.		
<b>Recommendation 3b</b>	Agree	<b>Estimated Completion Date:</b>	10/15/22
<b>Please provide details of corrective action or explain disagreement.</b>	1. Holly Center will ensure that secondary employment is reported to MDH's IAC/S as required by MDH policy.		
<b>Recommendation 3c</b>	Agree	<b>Estimated Completion Date:</b>	6/30/2022
<b>Please provide details of corrective action or explain disagreement.</b>	1. Going forward: Nursing Agency Contractors will only provide non-Holly Center employees to fill needs list shift vacancies. 2. Holly Center acknowledges the overlapping in payment error disclosed in the audit report and will consult with appropriate authorities to ensure this does not occur in the future.		



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**Payroll**

**Finding 4**

The Potomac Center and the Holly Center had not established adequate controls to ensure the propriety of payroll transactions, including adjustments to employee pay and leave balances.

We recommend that the MDH Healthcare System

- a. ensure that payroll adjustments are reviewed and approved by independent supervisory personnel, and that this approval is documented, before submission for processing;
- b. independently verify Statewide Personnel System output reports of payroll and leave balance adjustments to ensure only authorized adjustments had been processed; and
- c. reconcile total payroll as reflected in Central Payroll Bureau payroll registers each pay period with SPS payroll summary reports, investigate any differences, and ensure that these reconciliations are documented.

Agency Response			
<b>Analysis</b>	<b>Factually Accurate</b>		
Please provide additional comments as deemed necessary.			
<b>Recommendation 4a</b>	Agree	<b>Estimated Completion Date:</b>	See below
Please provide details of corrective action or explain disagreement.	<p><b><u>Holly Center – Estimated Completion Date 9/30/2022</u></b>  Holly Center’s Human Resources Director and Chief Financial Officer, or another representative who does not have access to initiate, edit, or approve, has reviewed and signed all payroll adjustments submitted by the employee’s supervisor. Written procedures were established on 9/30/2022.</p> <p><b><u>Potomac Center – Estimated Completion Date 10/1/2022</u></b>  The Center concurs with the recommendation. The Potomac Center and SETT has reviewed current operating procedures with the MDH Office of Human Resources regarding payroll and leave balance adjustments. The fiscal department established a form that the Initiator (this could be</p>		

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	<p>the employee, supervisor, timekeeper, HR) will fill out and sign off on the request for payroll and leave balance adjustments. This form will be forwarded to the Potomac Center Human Resources Department or Office of Human Resources (OHR) to, review, approve, and make the adjustment. The Fiscal Department, in conjunction with the Human Resource Department, have established written Standard Operating Procedure (SOP) on 10/1/22 to have standardized processes and facilitate properly verified.</p> <p>As completed, we expect that revised standard operating processes and procedures (SOPs) will be reviewed by the MDH Office of Internal Controls, Audit Compliance &amp; Information Security and tested for implementation compliance.</p>		
<b>Recommendation 4b</b>	Agree	<b>Estimated Completion Date:</b>	See below
<b>Please provide details of corrective action or explain disagreement.</b>	<p><b><u>Holly Center – Estimated Completion Date 9/30/2022</u></b></p> <p>The Holly Center Human Resources Director or designee will print SPS output reports weekly to review the payroll and leave balance adjustments for accuracy. Written procedures were established by 7/1/2022.</p> <p><b><u>Potomac Center – Estimated Completion Date 10/1/2022</u></b></p> <p>The Center concurs with the recommendation. The Center will work with OHR to identify current SPS output reports then will use these to verify adjustments processed. The fiscal department will establish a form that will include sign off/approvals from the Initiator of request, approver, and a designee of payroll. The Fiscal Department has established Standard Operating Procedure to facilitate proper verification of adjustments on 10/1/2022. The process is monitored by the Potomac Center Human Resources Department.</p> <p>As completed, we expect that revised standard operating processes and procedures (SOPs) will be reviewed by the MDH Office of Internal Controls, Audit Compliance &amp; Information Security and tested for implementation compliance.</p>		
<b>Recommendation 4c</b>	Agree	<b>Estimated Completion Date:</b>	See below

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<p><b>Please provide details of corrective action or explain disagreement.</b></p>	<p><b><u>Holly Center – Estimated Completion Date 9/30/2022</u></b> The Human Resource Officer and Chief Financial Officer will use the CPB payroll reports and the SPS payroll summary reports to reconcile the weekly payroll and document with respective signatures. Written procedures were established on 9/30/2022.</p> <p><b><u>Potomac Center – Estimated Completion Date 7/1/2022</u></b> The Center agrees with the recommendation. During this reporting period the Center did not have access to CPB Payroll Registers. CPB Check register access for the Potomac Center/SETT was acquired 6/2022. Reconciliation of the SPS Workday Payroll Summary report with the CPB check register was developed by the CFO on 7/1/2022.</p> <p>As completed, we expect that revised standard operating processes and procedures (SOPs) will be reviewed by the MDH Office of Internal Controls, Audit Compliance &amp; Information Security and tested for implementation compliance.</p>
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AUDIT TEAM

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