

# Audit Report

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## **Department of Health and Mental Hygiene Thomas B. Finan Hospital Center and Joseph D. Brandenburg Center**

December 2008

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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 17, 2008

Senator Verna L. Jones, Co-Chair, Joint Audit Committee  
Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Thomas B. Finan Hospital Center and the Joseph D. Brandenburg Center for the period beginning June 1, 2005 and ending June 30, 2008. Both centers provide mental health services to adults residing in Allegany, Frederick, Garrett, Montgomery, and Washington Counties.

Our audit disclosed that the Centers did not always follow State Procurement Regulations when procuring goods and services. For example, the Centers did not obtain approval from the Board of Public Works, as required, for a contract modification of approximately \$300,000 and appeared to have artificially divided numerous procurements to avoid Department of Budget and Management approval.

The Department of Health and Mental Hygiene's response, on behalf of the Centers, to this audit 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 Centers.

Respectfully submitted,

Bruce A. Myers, CPA  
Legislative Auditor



## **Background Information**

### **Agency Responsibilities**

The Thomas B. Finan Hospital Center, located in Cumberland, Maryland, provides mental health services to adults of Allegany, Frederick, Garrett, Montgomery, and Washington Counties. The Center also provided mental health services for adolescents from these counties (in addition to Carroll and Howard Counties) until September 2007, at which time the adolescents were transferred to other State operated treatment facilities or to privately operated treatment facilities. The Joseph D. Brandenburg Center, located on the grounds of the Thomas B. Finan Hospital Center, provides residential care, treatment, and support to citizens who are developmentally disabled. With regard to the Centers' organizational structures, the Department of Health and Mental Hygiene's Mental Health Administration is responsible for the administrative functions and mental health programs and the Department's Developmental Disabilities Administration is responsible for the services to the developmentally disabled.

The Thomas B. Finan Hospital Center and the Joseph D. Brandenburg Center have licensed capacities of 119 and 25 resident patients, respectively. During fiscal year 2008, the Thomas B. Finan Center had an average daily population of 78 patients and was budgeted for an average daily population of 80 residents; the Joseph D. Brandenburg Center had an average daily population of 18 patients and was budgeted for an average daily population of 20 residents. According to the State's records, expenditures of the Thomas B. Finan Center and the Joseph D. Brandenburg Center during fiscal year 2008 totaled approximately \$17.7 million and \$4.5 million, respectively. The Thomas B. Finan Center provides various support services (for example, payroll, purchasing, and maintenance of accounting records) for the Joseph D. Brandenburg Center.

### **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 September 2, 2005. We determined that the Centers satisfactorily addressed this item.

## Findings and Recommendations

### Procurement of Goods and Services

#### **Finding 1**

**The Centers did not always procure goods and services in accordance with State Procurement Regulations.**

#### **Analysis**

The Centers did not always follow State Procurement Regulations when procuring goods and services. Specifically, our review of selected procurement expenditures disclosed the following deficiencies:

- The Centers did not prepare a contract modification nor obtain approval from the Board of Public Works (BPW) for the modification, as required. Specifically, during fiscal years 2004 through 2008, the Centers made payments to the dietary service contractor totaling approximately \$5 million, which exceeded the contract amount by approximately \$300,000, without obtaining required approval from the BPW.
- State Procurement Regulations specify the procurement methods (such as, competitive sealed proposals for procurements over \$25,000) to be used to procure human services (such as, physician services). However, the Centers did not adhere to these regulations. Rather, during fiscal years 2007 and 2008, the Centers issued 25 separate purchase orders totaling approximately \$603,500 to three temporary employment agencies for these services. Additionally, the procurement of these services appeared to have been artificially divided into numerous smaller procurements of \$25,000 or less to avoid required approval of the Department of Budget and Management (DBM). In this regard, 23 of the aforementioned 25 purchase orders were for \$24,999 each.
- Our test disclosed that 7 payments totaling approximately \$108,000 lacked adequate documentation of the procurement process. Specifically, although we were advised by Center management personnel that these procurements were either competitively bid or were awarded as sole source procurements, documentation of competitive bids received and sole source justifications were not on file to substantiate this claim. Each of the seven procurements was between \$2,501 and \$25,000.

State Procurement Regulations require that agencies obtain BPW approval for contract modifications that change the contract amount by more than \$50,000, and for procurements in excess of \$200,000. In addition, these regulations further require DBM approval of human services contracts greater than \$25,000. The regulations also generally require that competitive bids be obtained for all procurements over \$2,500, and that the reasons for sole source procurements be documented in writing.

#### **Recommendation 1**

**We recommend that the Centers comply with the aforementioned requirements of the State Procurement Regulations. Specifically, we recommend that, in the future, all contracts and contract modifications be submitted for approval, as required, and that the Centers not artificially divide procurements to avoid required approvals. We also recommend that the Centers forward the aforementioned contract modification to the BPW for approval. We further recommend that the Centers procure goods and services utilizing competitive bidding as required, and that documentation of competitive bids and sole source award justifications be maintained.**

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

We have audited the Thomas B. Finan Hospital Center and the Joseph D. Brandenburg Center of the Department of Health and Mental Hygiene for the period beginning June 1, 2005 and ending June 30, 2008. 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 State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine the Centers' financial transactions, records and internal control, and to evaluate 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. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Centers' 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.

Our audit scope was limited with respect to the Centers' cash transactions because the Office of the State Treasurer was unable to reconcile the State's main bank accounts during a portion of the audit period. Due to this condition, we were unable to determine, with reasonable assurance, that all of the Centers' cash transactions prior to July 1, 2005 were accounted for and properly recorded on the related State accounting records as well as the banks' records.

The Centers' 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.

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.

Our audit disclosed conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect the Centers' ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. This report also includes conditions regarding a significant instance of noncompliance with applicable laws, rules, or regulations. A less significant finding was communicated to the Centers that did not warrant inclusion in this report.

The Department of Health and Mental Hygiene's response, on behalf of the Centers, 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.





STATE OF MARYLAND

DHMH

APPENDIX

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 16, 2008

Mr. Bruce Myers, CPA  
Legislative Auditor  
Office of Legislative Audits  
301 West Preston Street  
Baltimore, MD 21201

Dear Mr. Myers:

Thank you for your letter regarding the draft audit report of the Thomas B. Finan Hospital Center and the Joseph D. Brandenburg Center for the period beginning June 1, 2005 and ending June 30, 2008. Enclosed you will find the Department's response and plan of correction that addresses each audit recommendation.

I will work with the appropriate Directors of Administration, Program Directors, and Deputy Secretary to promptly address all audit exceptions. In addition, the Division of Internal Audits 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 410-767-4639 or Thomas V. Russell, Inspector General, at 410-767-5862.

Sincerely,

John M. Colmers  
Secretary

Enclosure

cc: Renata J. Henry, Deputy Secretary for Behavioral Health and Disabilities, DHMH  
Valerie A. Roddy, Assistant to the Deputy Secretary for Behavioral Health and Disabilities, DHMH  
Brian M. Hepburn, M.D., Executive Director, MHA, DHMH  
Thomas V. Russell, Inspector General, DHMH  
Ellwood L. Hall Jr., Assistant Inspector General, DHMH  
Judith Holt, Chief Executive Officer, Thomas B. Finan Hospital, DHMH  
Carolyn K. Brown, Director, Joseph D. Brandenburg Center, DHMH

# **Findings and Recommendations**

## **Procurement of Goods and Services**

### **Finding 1**

**The Centers did not always procure goods and services in accordance with State Procurement Regulations.**

### **Recommendation 1**

**We recommend that the Centers comply with the aforementioned requirements of the State Procurement Regulations. Specifically, we recommend that, in the future, all contracts and contract modifications be submitted for approval, as required, and that the Centers not artificially divide procurements to avoid required approvals. We also recommend that the Centers forward the aforementioned contract modification to the BPW for approval. We further recommend that the Centers procure goods and services utilizing competitive bidding as required, and that documentation of competitive bids and sole source award justifications be maintained.**

### **Centers' Response:**

The Center concurs with the recommendations. The Centers will have all future contracts and contract modifications approved according to State Procurement Regulations. Specifically:

- The Finan Center will process a dietary contract modification for the amount exceeding the approved contract amount by the Board of Public Works for the contract period ending June 30, 2008. The Finan Center will process this modification in January 2009 and obtain the Board of Public Works approval in February 2009. The Centers are currently utilizing an approved dietary contract that began on July 1, 2008.
- The Finan Center has processed an emergency contract for psychiatry services to run from December 1, 2008 thru June 30, 2009.
- The Finan Center will process a multi-vendor contract for psychiatrists to begin July 1, 2009.
- The Centers will document all competitive bidding and sole source awards immediately.

AUDIT TEAM

**Mark A. Ermer, CPA**  
Audit Manager

**Joel E. Kleiman, CPA**  
Senior Auditor

**Chiaka N. Opara**  
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