

Audit Report

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**Department of Health and Mental Hygiene  
Eastern Shore Hospital Center**

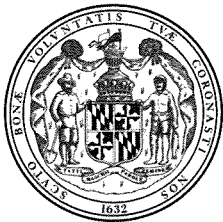
July 2014

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

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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Karl S. Aro  
Executive Director

July 25, 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 conducted a fiscal compliance audit of the Eastern Shore Hospital Center (ESHC) of the Department of Health and Mental Hygiene (DHMH) for the period beginning February 24, 2011 and ending March 30, 2014. ESHC provides psychiatric and related services to patients from the nine counties of Maryland's Eastern Shore.

Our audit disclosed that controls over patient funds were not sufficient.

DHMH's response to this audit, on behalf of ESHC, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by ESHC.

Respectfully submitted,

Thomas J. Barnickel III, CPA  
Legislative Auditor



## **Background Information**

### **Agency Responsibilities**

The Eastern Shore Hospital Center (ESHC), located in Cambridge, Maryland, provides comprehensive psychiatric and related services to patients from the nine counties of Maryland's Eastern Shore. The services provided include inpatient treatment and community service programs. During fiscal year 2013, ESHC, which is accredited by The Joint Commission (formerly the Joint Commission on Accreditation of Healthcare Organizations), had a licensed capacity of 80 inpatients, a budgeted average daily population of 76 inpatients, and an actual average daily population of 75 inpatients. According to the State's records, ESHC's fiscal year 2013 operating expenditures totaled approximately \$17.6 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 September 30, 2011. We determined that ESHC satisfactorily addressed these findings.

## **Findings and Recommendations**

### **Patient Funds**

#### **Finding 1**

**ESHC had not established adequate controls over patient funds.**

#### **Analysis**

ESHC patient funds were not adequately controlled. Specifically, we noted that the employee who reconciled ESHC's patient fund records with the corresponding State records on a monthly basis also processed patient fund collections. Furthermore, there was no independent supervisory review and approval of reconciliations performed. According to ESHC's records, during fiscal year 2013, patient fund collections and disbursements totaled approximately \$114,000 and \$134,000, respectively.

The Comptroller of Maryland – General Accounting Division's *Accounting Procedures Manual* requires that cash handling, record keeping, and reconciliation duties be segregated. However, ESHC believes that it does not

have sufficient fiscal personnel to provide for independent preparation of the patient fund reconciliations. Consequently, it is imperative that these reconciliations be reviewed and approved by independent supervisory personnel.

#### **Recommendation 1**

**We recommend that independent supervisory personnel review and approve the monthly patient fund reconciliations, including verification of critical amounts to supporting documentation. We advised ESHC on accomplishing the necessary separation of duties using existing personnel.**

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

We have conducted a fiscal compliance audit of the Eastern Shore Hospital Center (ESHC) of the Department of Health and Mental Hygiene (DHMH) for the period beginning February 24, 2011 and ending March 30, 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 ESHC's 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 patient funds, procurements and disbursements, materials and supplies, corporate purchasing cards, and payroll. We also determined the status of the findings included in our preceding audit report.

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

ESHC'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 a condition that we consider to be a significant deficiency in the design or operation of internal control that could adversely affect ESHC'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.

The response from DHMH, on behalf of ESHC, 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 DHMH 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

July 24, 2014

Mr. Thomas J. Barnickel III, CPA  
Legislative Auditor  
Office of Legislative Audits  
301 West Preston Street  
Baltimore, MD 21201

Dear Mr. Barnickel:

Thank you for your letter regarding the draft audit report for the Eastern Shore Hospital Center for the period beginning February 24, 2011 and ending March 30, 2014. Enclosed you will find the Department's response and plan of correction that addresses each audit recommendation.

I will work with the appropriate Administration Directors, Programs Directors, and Deputy Secretary to promptly address the audit exceptions. In addition, the OIG's 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,

Joshua M. Sharfstein, M.D.  
Secretary

cc: Gayle M. Jordan-Randolph, M.D., Deputy Secretary for Behavioral Health and Disabilities, DHMH  
Erin McMullen, Acting Chief of Staff, Behavioral Health and Disabilities, DHMH  
Brian M. Hepburn, M.D., Executive Director, Behavioral Health Administration, DHMH  
Ms. Mary R. Sheperd, Deputy Director, Hospitals and Adolescent Residential Treatment, BHA, DHMH  
Randy L. Bradford, Chief Executive Officer, ESHC  
Rianna Mathews-Brown, Acting Chief of Staff, DHMH  
Thomas V. Russell, Inspector General, DHMH  
Ellwood L. Hall, Jr., Assistant Inspector General, DHMH



## **Findings and Recommendations**

### **Patient Funds**

#### **Finding 1**

**ESHC had not established adequate controls over patient funds.**

#### **Recommendation 1**

We recommend that independent supervisory personnel review and approve the monthly patient fund reconciliations, including verification of critical amounts to supporting documentation. We advised ESHC on accomplishing the necessary separation of duties using existing personnel.

#### **Center's Response**

The Center concurs with the findings of the Legislative Auditors regarding the monthly patient fund reconciliation and agrees with the recommendation. The Chief Financial Officer (CFO) will be responsible for the approval of the monthly patient fund reconciliations and verification of critical amounts to supporting documentation. In the absence of the CFO, the Chief Operating Officer (COO) will assume those duties. This will begin starting in August 2014.

AUDIT TEAM

**William R. Smith, CPA**  
Audit Manager

**J. Alexander Twigg**  
Senior Auditor

**Joshua A. Naylor**  
Staff Auditor