

Audit Report

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

March 2015



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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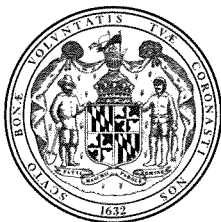
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

March 30, 2015

Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee
Delegate Craig J. Zucker, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Holly Center of the Department of Health and Mental Hygiene (DHMH) for the period beginning May 5, 2011 and ending June 30, 2014. The Center provides comprehensive services for persons of all ages who are developmentally disabled and who reside in the nine counties of Maryland's Eastern Shore.

Our audit disclosed that the Center did not verify billings from its pharmaceutical contractor prior to payment. Furthermore, the Center did not maintain documentation to support its physical inventories of equipment.

DHMH'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,

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities

Holly Center, which is located in Salisbury, Maryland, provides comprehensive services for persons of all ages who are developmentally disabled and reside in the nine counties of Maryland's Eastern Shore. Additionally, the Center provides certain outpatient services, and coordination and support services to day programs and group homes for the developmentally disabled. As of June 30, 2014, the Center had a licensed capacity of 150 inpatient residents. During fiscal year 2014, the Center had an average daily population of 73 residents. According to the State's records, total Center expenditures totaled approximately \$17.5 million during fiscal year 2014.

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 26, 2011. We determined that the Center satisfactorily addressed one of these findings. The remaining finding is repeated in this report.

Findings and Recommendations

Pharmacy Contract

Finding 1

The Center paid pharmaceutical invoices without verification of the items received and the costs charged.

Analysis

Billings from the Center's pharmaceutical contractor were not verified prior to payment. The Center's contract required the vendor to obtain and deliver pharmaceuticals on a routine basis. The Center was to reimburse the vendor for the actual cost of the pharmaceuticals and pay the vendor a monthly administrative fee. However, the Center did not verify the items billed to documentation of the type and quantity of pharmaceuticals actually received and did not obtain documentation from the vendor to substantiate the unit costs charged, as permitted by the contract.

The Center has contracted with this vendor since July 2008. The current contract, for approximately \$540,000, covers the period from March 2014 through

February 2019. According to the State's records, the Center paid the vendor approximately \$39,000 during fiscal year 2014.

Recommendation 1

We recommend that the Center

- a. verify that pharmaceutical items billed were actually received; and**
- b. obtain documentation, such as copies of invoices paid by the vendor, to verify the accuracy of invoiced costs, at least on a test basis.**

Equipment

Finding 2

Physical inventories of equipment were not documented by the Center and reconciliations of equipment records were not performed in a timely manner.

Analysis

Physical inventory and record keeping procedures were not in compliance with certain requirements of the Department of General Services' (DGS) *Inventory Control Manual*. The Center's equipment balance reported to DGS as of June 30, 2014 totaled approximately \$2.2 million.

- The Center lacked documentation that complete physical inventories of sensitive and non-sensitive equipment were conducted during our audit period. Although the Center's detail equipment records indicated dates throughout our audit period on which certain equipment items were last inventoried, the Center did not maintain documentation, such as count sheets, to support that these inventory counts had been conducted and reconciled to the detailed equipment records.
- Reconciliations of the equipment control account with the detail records were not performed in a timely manner. As of July 2014, the Center had not performed reconciliations since October 2013.

Similar conditions were commented upon in our preceding audit report. The DGS *Inventory Control Manual* requires a documented physical inventory of sensitive equipment every year and of non-sensitive equipment every three years. Additionally, the *Manual* requires that a control account be maintained and that the aggregate balance of the related detail records be periodically reconciled with the control account balance.

Recommendation 2

We recommend that the Center comply with the aforementioned requirements of the DGS *Inventory Control Manual* (repeat).

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Holly Center of the Department of Health and Mental Hygiene (DHMH) for the period beginning May 5, 2011 and ending June 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 the Center'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 resident funds, procurements and disbursements, cash receipts, equipment, corporate purchasing cards, and payroll. We also determined the status of the findings included in our preceding audit report.

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

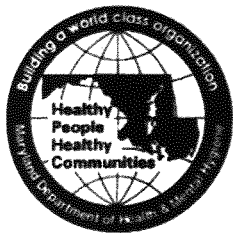
The Center's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding 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 to be 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 report also includes a finding regarding a significant instance of noncompliance with applicable laws, rules, or regulations. A less significant finding was communicated to the Center that did not warrant inclusion in this report.

DHMH's response, on behalf of the Center, 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.



STATE OF MARYLAND

APPENDIX

DHMH

Maryland Department of Health and Mental Hygiene

Larry Hogan, Governor - Boyd Rutherford, Lt. Governor - Van Mitchell, Secretary

March 30, 2015

Mr. Thomas J. Barnickel III, CPA
Legislative Auditor
Office of Legislative Audits
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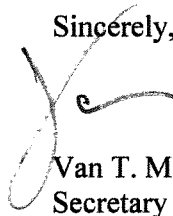
Dear Mr. Barnickel:

Thank you for your letter regarding the draft audit report for the Department of Health and Mental Hygiene – Holly Center for the period beginning May 5, 2011 through June 30, 2014. Enclosed you will find the Department's response and plan of correction that addresses each audit recommendation.

The Department will work with the appropriate administration directors, program directors and deputy secretary to promptly address the audit exceptions. In addition, the Office of the Inspector General'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,



Van T. Mitchell
Secretary

cc: Shelly Amick, Chief Executive Officer, Holly Center
Ralph Morris, Chief Operating Officer, Holly Center
Bernard Simons, Deputy Secretary of Developmental Disabilities
Shawn Cain, Chief of Staff, Office of the Secretary, DHMH
Thomas V. Russell, Inspector General, DHMH
Elizabeth Morgan, Assistant Inspector General, DHMH

Findings and Recommendations

Finding 1

The Center paid pharmaceutical invoices without verification of the items received and the costs charged.

Auditor's Recommendation:

We recommend that the Center

- a. verify that pharmaceutical items billed were actually received; and**
- b. obtain documentation, such as copies of invoices paid by the vendor, to verify the accuracy of invoiced costs, at least on a test basis.**

Administration's Response:

- a. Administration concurs with the recommendation. Holly Center will ensure that pharmaceutical items billed were actually received. This concern was immediately addressed during the audit by the implementation of nurse verification upon pharmacy delivery of non-unit dose items included in the delivery as well as the maintenance of those packaging invoices for one year.
- b. Administration concurs with the recommendation that documentation should be obtained from the pharmaceutical vendor to verify the accuracy of invoiced costs. This concern was immediately addressed during the audit by the implementation of a 10% monthly random monitoring sample which includes cost lists. As of February 1, 2015, documentation of the review process will be completed and maintained by the Center.

Finding 2

Physical inventories of equipment were not documented by the Center and reconciliations of equipment records were not performed in a timely manner.

Auditor's Recommendation:

We recommend that the Center comply with the aforementioned requirements of the DGS *Inventory Control Manual* (repeat).

Administration's Response:

Administration concurs that the Center should comply with the requirements of the DGS *Inventory Control Manual*. The agency previously attempted to correct this finding by utilization of the A-Track System (electronic tracking device); however, formal documentation of the inventory was not maintained. Effective January 4, 2015, formal documentation, i.e., a count sheet, was subsequently utilized during physical inventories of sensitive and non-sensitive equipment. Both the Chief Financial Officer and the Chief Operating Officer will review and

verify the form is completed appropriately per the DGS *Inventory Control Manual*. This documentation will be maintained by the agency.

Administration concurs that reconciliations of the equipment control account with the detail records were not performed in a timely manner. Reconciliations, in arrears, were completed by March 9, 2015, and reviewed and verified by the Chief Operating Officer. In the future, reconciliations will be completed by the Chief Financial Officer on a monthly basis, and will be reviewed and verified by the Chief Operating Officer.

AUDIT TEAM

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