

Audit Report

**Department of Health and Mental Hygiene
Spring Grove Hospital Center**

October 2015



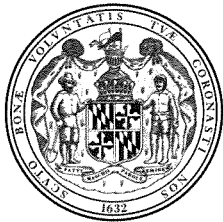
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Warren G. Deschenaux
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

October 15, 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 Spring Grove Hospital Center (SGHC) of the Department of Health and Mental Hygiene (DHMH) for the period beginning January 18, 2012 and ending February 16, 2015. SGHC provides comprehensive mental health services to residents of Baltimore City, and Baltimore and Harford Counties.

Our audit disclosed that SGHC had not established adequate controls over the processing of its cash receipts. For example, verifications to ensure all recorded collections were deposited were not being performed. In addition, equipment records were not properly maintained.

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

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities

Spring Grove Hospital Center (SGHC), located in Catonsville, Maryland, provides a wide range of comprehensive mental health services to residents of Baltimore City, and Baltimore and Harford Counties. Furthermore, SGHC provides inpatient competency and criminal responsibility evaluations and long-term inpatient and domiciliary care to patients found not criminally responsible. In addition, SGHC provides ancillary services to the Maryland Psychiatric Research Center, a joint program between the Department of Health and Mental Hygiene and the University of Maryland, School of Medicine. SGHC is accredited by The Joint Commission, which evaluates and monitors health care organizations nationwide to ensure the highest quality of care is provided.

During fiscal year 2014, SGHC had a licensed capacity of 639 inpatients, a budgeted average daily population of 377, and an actual average daily population of 376. According to the State's records, total SGHC expenditures were approximately \$78.8 million during fiscal year 2014.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the four findings contained in our preceding audit report dated November 2, 2012. We determined that SGHC satisfactorily addressed three of these findings. The remaining finding is repeated in this report.

Findings and Recommendations

Cash Receipts

Finding 1

Controls were not established to ensure collections were properly accounted for and deposited.

Analysis

Proper controls were not established over cash receipts. According to State records in fiscal year 2014, collections totaled approximately \$860,000, including mail-in receipts, walk-in receipts, and \$244,000 in cafeteria sales.

- As of March 2015, verifications to ensure that recorded collections were deposited had not been performed since December 2014 because the employee responsible for the verifications retired. Furthermore, based on available documentation, it appeared that the verifications performed prior to this date were not proper. Specifically, the employee who performed the verifications used only the initial record of mail-in receipts to perform the deposit verification and did not use the initial records of cafeteria and walk-in receipts. Similar conditions were commented upon in our preceding audit report.
- Separate cash drawers and individual userids were not used by the four cashiers in the cafeteria. In addition, voided transactions processed by the cashiers, which totaled approximately \$136,500 during fiscal year 2014, were not subject to independent supervisory review and approval. Specifically, our test of 76 voided transactions processed on three separate dates between February 2014 and November 2014 disclosed that, while the voids appeared reasonable, none was subject to proper approvals.
- Spring Grove Hospital Center (SGHC) did not establish accountability over cafeteria coupons issued to medical students interning at SGHC. The coupons, which could be redeemed for cafeteria purchases, were issued in books containing 30 vouchers, each in \$5 or \$7 dollar denominations. Records of coupons issued were not maintained and, because the coupons were not prenumbered, the coupons could not be accounted for as to issued, voided, or on hand. Cafeteria sales resulting from coupons totaled approximately \$51,500 during calendar year 2014.

As a result of these conditions, receipts could be lost or misappropriated without detection. The Comptroller of Maryland's *Accounting Procedures Manual* requires the establishment of sufficient internal controls over collections, including an independent verification of collections to deposit using proper documentation, supervisory review and approval of voided transactions, and initial accountability over collections received.

Recommendation 1

We recommend that SGHC

- ensure that deposit verifications are performed by an employee independent of the cash receipts functions, using all initial receipt records (repeat);**
- implement separate cash drawers and userids for the cashiers;**
- establish supervisory review and approval of all voided transactions; and**

- d. use prenumbered cafeteria coupons and account for the coupons as to issued, voided, or on hand.

We advised SGHC on accomplishing the necessary separation of duties using existing personnel.

Equipment

Finding 2

SGHC recordkeeping procedures for equipment were not in compliance with certain requirements.

Analysis

SGHC recordkeeping procedures were not in compliance with certain provisions of the Department of General Services' (DGS) *Inventory Control Manual*. As the State's oversight unit responsible for ensuring agencies properly account for and control State property, DGS conducted a compliance review of SGHC procedures and the related report, dated May 14, 2015, noted the following conditions:

- The equipment control account was not reconciled with the related detail records. As of June 30, 2014, the total value of equipment recorded in the control account (\$5.4 million) exceeded the related detail records (\$5.3 million) by approximately \$117,000. In addition, adjustments to the inventory control account were not subject to supervisory review and approval.
- The value of equipment reported to DGS as of June 30, 2014 on the annual report of fixed assets did not accurately reflect the value of SGHC equipment. The value of equipment reported (\$7.7 million) exceeded the amount recorded in the detail records (\$5.3 million) by approximately \$2.4 million. SGHC could not fully explain the difference.

The *Inventory Control Manual* requires that the control account be periodically reconciled with the detail records and that all adjustments to the control account be approved by supervisory personnel. In addition, the *Manual* requires State agencies to annually report the value of fixed assets to DGS. In its response to the DGS compliance report, SGHC stated it agreed with the findings and would correct the noted deficiencies.

Recommendation 2

We recommend that SGHC comply with the requirements of the DGS *Inventory Control Manual*.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Spring Grove Hospital Center (SGHC) of the Department of Health and Mental Hygiene (DHMH) for the period beginning January 18, 2012 and ending February 16, 2015. 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 SGHC'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 procurements and disbursements, cash receipts, equipment, and payroll. We also determined the status of the findings included in our preceding audit report.

In February 2015, SGHC was subject to an on-site compliance review, by the Department of General Services (DGS), regarding SGHC's conformity with the policies and procedures of the DGS *Inventory Control Manual*. The review included a comprehensive assessment of procedures and documentation related to SGHC's most recently completed inventories and addressed controls over the receipt, custody, and disposal of equipment and maintenance of the related records. We have relied on the work performed by DGS to provide audit coverage of SGHC's equipment. Our audit procedures for equipment were generally limited, therefore, to obtaining a sufficient basis for that reliance.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of SGHC's operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests 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 expenditure data) and the State's Central Payroll Bureau (payroll data). 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.

SGHC'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 SGHC's 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. A less significant finding was communicated to SGHC that did not warrant inclusion in this report.

DHMH's response, on behalf of SGHC, 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

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

October 13, 2015

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 Department of Health and Mental Hygiene – Spring Grove Hospital Center for the period beginning January 18, 2012 and ending February 16, 2015. 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, 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 Susan Steinberg, Acting Inspector General, at 410-767-5784.

Sincerely,

Van T. Mitchell
Secretary

cc: Gayle Jordon-Randolph, Deputy Secretary, Behavioral Health, DHMH
Rianna Matthews-Brown, Chief of Staff, Behavioral Health, DHMH
Albert Zachik, M.D., Acting Executive Director, Behavioral Health Administration, DHMH
Mary R. Sheppard, Deputy Director, Facilities Management, Behavioral Health Administration, DHMH
Andrea Braid, Interim Superintendent, Spring Grove Hospital Center
Mathew Karmel, Chief Financial Officer, Spring Grove Hospital Center
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Susan R. Steinberg, Esq., Acting Inspector General, DHMH
Elizabeth A. Morgan, Assistant Inspector General, Audits DHMH
Pamela S. Leonard, Chief, Internal Audits, DHMH

Findings and Recommendations

Cash Receipts

Finding 1

Controls were not established to ensure collections were properly accounted for and deposited.

Recommendation 1

We recommend that SGHC

- a. ensure that deposit verifications are performed by an employee independent of the cash receipts functions, using all initial receipt records (repeat);**
- b. implement separate cash drawers and userids for the cashiers;**
- c. establish supervisory review and approval of all voided transactions; and**
- d. use prenumbered cafeteria coupons and account for the coupons as to issued, voided, or on hand.**

We advised SGHC on accomplishing the necessary separation of duties using existing personnel.

Administration's Response

- a. We concur with the recommendation SGHC ensure that an employee independent of the collection and deposit functions verify that recorded collections were deposited using initial receipt records. For a period of time between the retirement of both the former Chief Financial Officer (CFO) and the employee who performed the deposit verification, limited resources made it difficult to achieve timely deposit verification and complete separation of duties. This situation resulted in the temporary discontinuation of the deposit verification process. However, beginning April 2015, the Center introduced a deposit verification process using the initial recordation of cafeteria document (*Daily Cash Register 'Z' Report*) with the bank validated deposit ticket and the certificate of deposit processed in FMIS. An employee independent of routine cash receipt functions enters the information into a reconciliation worksheet, and the newly replaced Administrator II at the Finance department, who is also independent of cash receipt functions, completes the reconciliation of the deposit verification process. This process is currently up to date. The

Finance Office logs all walk-in collections into an initial recordation document (check log), which is verified by an employee independent of routine cash receipt and deposit functions with the bank validated deposit tickets. Although the verifying employee recorded the deposit ticket numbers in the initial recordation document (check log), the totals of each day's collections were not verified. Effective FY16, the Center denotes the total of all daily collections entered in the initial recordation document (check log) and verifies with the collection totals recorded in the bank validated deposit ticket. Currently the Administrator II performs the final reconciliation of this process.

- b. We partially concur with the recommendation that we implement separate cash drawers and userids for the cashiers. In an ideal world, we agree. However, as a small operation, with limited staff all having multiple duties and no "assigned" cashier, as well as "rush" periods of the operation, at this time we have not determined how best to meet this recommendation. The Café manager, CFO, and COO have formed a workgroup to better research how best to proceed. We expect to have a decision by December 31, 2015.
- c. We concur with the recommendation that we establish supervisory review and approval of all voided transactions. Effective April 2015, all cashiers initial any voids. All voids are reviewed by the Café Manager or Assistant Manager. Unless absolutely necessary, given the small operation and limited staff, the Café Manager will not serve as a cashier. If the Café Manager serves as cashier, the Assistant Manager will review any voids by the Manager. Effective FY16, a Finance Office employee, independent of cash operations, will verify the actual reported voids off the Z Report with the supporting documentation of voided transactions signed by the Café supervisors. In addition, the COO will send a memo to all Café staff as to the importance of following these procedures.
- d. We concur with the recommendation that we only use pre-numbered coupons and account for the coupons as to used, voided, or on hand. Coupons are used by multiple departments, for different purposes, and with different values. We are in the process of standardizing the coupons and values by developing a standard coupon booklet with stub recordation for recording coupon holders. All coupons will be pre-numbered. With the exception of the medical student coupons issued through the CEO's office, the booklets would be issued through the COO's office. A Finance Office employee, independent of the CEO's and COO's office, will maintain the control account and perform periodic reconciliation for all coupons. The new coupon system will be in place by December 31, 2015.

Equipment

Finding 2

SGHC recordkeeping procedures for equipment were not in compliance with certain requirements.

Recommendation 2

We recommend that SGHC comply with the requirements of the DGS *Inventory Control Manual*.

Administration's Response:

We concur with the recommendation that SGHC comply with the requirements of the DGS Inventory Control Manual.

The aggregate balance of the related detail records will be periodically reconciled with the control account balance. Due to the unexplained discrepancies and inconsistencies noted in the control accounts with the detailed records, the Center is re-establishing a new control account balance from the total physical values as indicated in the detailed records as of March 30, 2015. This will be considered as a fresh inventory control account balance and will be reconciled quarterly, effective October 31, 2015.

All adjustments to the control account will be approved by supervisory personnel. The Inventory Control Account will be maintained independent of the detailed records and that function is assigned to the newly replaced Administrator II at the Finance department. This employee maintains the control account, performs quarterly reconciliations with the detail records and prepares the necessary adjustments. All adjustments to the Inventory Control Account or Detail records will be reviewed and approved by the CFO, effective October 31, 2015.

The Center will accurately report all assets to DGS annually. Effective March 20, 2015, SGHC started a full inventory of all sensitive & non-sensitive capital equipment items for FY 15, as mandated by the DGS Inventory Control Manual. Due to the nature of the campus and staff turnovers, the Center experienced a delay from the inventory expected completion date of June 30, 2015. The Center is expected to complete the full inventory, its reconciliations, and final adjustments as of October 31, 2015. The Center will accurately report the final value of its assets to DGS annually.

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