

Audit Report

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**Maryland Department of Aging**

March 2017

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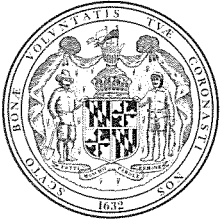
**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES  
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Warren G. Deschenaux  
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Legislative Auditor

March 9, 2017

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee  
Delegate C. William Frick, Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland Department of Aging (MDOA) for the period beginning May 14, 2013 and ending May 24, 2016. MDOA is responsible for identifying the needs of the State's elderly and for ensuring that those needs are met through a comprehensive network of accessible services at the local level. MDOA has designated 19 geographical regions within the State and each region is served by a local Area Agency on Aging (AAA), which is either a local government agency or a nonprofit organization. MDOA provided State grants totaling \$19.4 million to the AAAs during fiscal year 2016 for the delivery of program services to older adults.

Our audit disclosed that MDOA lacked evidence to substantiate that certain activities of AAAs were properly monitored. MDOA's annual financial reviews of AAAs were not adequately documented to provide assurance that State grant funds were spent in accordance with grant awards. Furthermore, programmatic reviews for monitoring certain State care programs were not always performed, as required, and there was a lack of evidence that deficiencies noted during such reviews were communicated to the applicable AAAs for corrective action. Finally, MDOA did not ensure that administrative expenses incurred by AAAs relating to Senior Care grant funds were within established limits.

MDOA's response 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 MDOA.

Respectfully submitted,

Handwritten signature of Thomas J. Barnickel III in cursive script.

Thomas J. Barnickel III, CPA  
Legislative Auditor

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\* Denotes item repeated in full or part from preceding audit report

## **Background Information**

### **Agency Responsibilities**

The Maryland Department of Aging (MDOA) is responsible for providing information and services to support older adults aging healthfully and safely in their homes and communities. Under the guidance of the federal Older Americans Act, MDOA has designated 19 local Area Agencies on Aging (AAAs) within the State, based on geographical regions, to ensure that eligible Maryland residents can easily access applicable information and services. Each regional AAA is either a local government agency or a nonprofit organization. As grantees of MDOA, these AAAs deliver direct services to support aging in place, including nutrition support, chronic disease management, case management, and elder abuse prevention, typically through State and federal grant programs. According to the State's records, MDOA expenditures totaled approximately \$58.1 million during fiscal year 2016, including approximately \$19.4 million related to State grants.

### **Status of Findings from Preceding Audit Report**

Our audit included a review to determine the status of six of the seven findings contained in our preceding audit report dated July 1, 2014. We determined that MDOA satisfactorily addressed four of these six findings. The remaining two findings are repeated in this report. We did not follow up on a finding in our preceding report pertaining to the Medicaid Home and Community-Based Services Waiver for Older Adults Program because Program activity (renamed the Medicaid Home and Community-Based Options Waiver Program) is now performed by the State's Department of Health and Mental Hygiene.

# Findings and Recommendations

## Monitoring of the Local Area Agencies on Aging

### Background

The local Area Agencies on Aging (AAAs) operate in partnership with the Maryland Department of Aging (MDOA) to deliver program services to older adults primarily through State and federal grant programs. MDOA awards grants to the AAAs, which provide services through numerous programs, including the State-funded Senior Assisted Living Group Home Subsidy program (SALGHS) and the Senior Care program. SALGHS offers a subsidy to eligible seniors (generally those aged 62 and older) to help offset the cost of assisted living services. The Senior Care program offers services to eligible seniors (generally those aged 65 and older) such as personal care, adult day care, home-delivered meals, and medical transportation. MDOA's *AAA Monitoring and Assessment Policy* requires MDOA to perform annual performance and financial reviews during site visits. These reviews focus on various programmatic aspects including ensuring that grant funds are properly requested and spent in accordance with grant requirements and for eligible purposes.

According to MDOA's records, during fiscal year 2016, State grant expenditures totaled approximately \$19.4 million. Of these total expenditures, approximately \$3.0 million was for the SALGHS program, \$7.2 million was for the Senior Care program, and the remaining \$9.2 million was for numerous smaller grant programs. According to MDOA's records, approximately 4,991 seniors received services through the Senior Care and SALGHS programs during fiscal year 2016.

### **Finding 1**

**MDOA lacked a comprehensive policy and did not adequately document annual financial reviews of AAAs it conducted to ensure the appropriate use of State grant funds.**

### Analysis

Although MDOA conducted annual financial reviews of the AAAs to ensure that State grant funds awarded were spent in accordance with the related award documents and other applicable requirements, our test of the fiscal year 2015 reviews found that the reviews we tested were poorly documented and were not approved by supervisory personnel. Furthermore, MDOA lacked a comprehensive policy defining the scope and other critical elements of the reviews.

Our test of five financial reviews conducted by MDOA, relating to AAAs with Senior Care and SALGHS expenditures totaling approximately \$6.3 million during fiscal year 2015, disclosed that MDOA lacked sufficient documentation and supervisory approval to support work performed and conclusions reached for all five reviews. For example, we noted only limited documentation of specific expenditures tested (copies of invoices selected for testing), and of the attributes tested and conclusions reached for each transaction. There was no detailed documentation describing test objectives, scope, and conclusions, and the extent to which AAA procedures were reviewed. In addition, none of the five reviews had evidence of supervisory review and approval.

The inadequate documentation was caused, at least in part, by the lack of a comprehensive financial review policy. MDOA's *AAA Monitoring and Assessment Policy* does not require that the work performed during the annual financial reviews be subject to supervisory review and approval, nor does it include specific procedures on how to conduct the financial reviews to ensure that grant funds are properly requested and spent in accordance with grant requirements and for eligible purposes. Similar conditions were commented upon in our two preceding audit reports.

#### **Recommendation 1**

**We recommend that MDOA**

- a. develop a comprehensive policy that clearly defines the objectives and scope of its AAA annual financial reviews (repeat) and that requires supervisory review and approval of work performed,**
- b. require that sufficient grant expenditures and source documents are reviewed to provide assurance that grant funds were spent in accordance with grant requirements and for eligible purposes (repeat), and**
- c. adequately document and properly review and approve work performed and conclusions reached in accordance with the comprehensive policy developed (repeat).**

#### **Finding 2**

**MDOA did not conduct all required site visits of AAAs to monitor SALGHS and Senior Care program activity, and there was a lack of evidence that deficiencies noted during site visits conducted were communicated to the applicable AAAs for corrective action.**

#### **Analysis**

Annual site visits to AAAs for monitoring SALGHS and Senior Care grant program activity were not always conducted as required, and MDOA lacked



evidence that deficiencies noted during site visits that were conducted were communicated to the applicable AAAs for corrective action. Accordingly, MDOA lacked assurance that AAAs consistently complied with State regulations and MDOA policies and procedures, including taking corrective action when deficiencies were noted.

Annual site visits are performed separately for each program and include a determination that the AAAs have adequately verified and documented that program participants have met all program eligibility requirements. All 19 AAAs participate in the Senior Care program and 15 AAAs participate in the SALGHS program; therefore, 34 site visits should be conducted for each year. We reviewed 45 of the 68 required site visits for fiscal years 2014 and 2015 and, as of August 2016, we determined that 16 required site visits had not been conducted, including 7 relating to fiscal year 2014 and 9 relating to fiscal year 2015. We noted that there were three AAAs for which site visits had not been conducted for either year for one of the two programs.

Our review of the documentation for 29 site visits conducted disclosed that, for 18 site visits, MDOA noted one or more instance in which AAAs could not provide documentation to support their verification of certain program participant eligibility criteria; however, these results were not formally communicated to the AAAs. For example, according to the results of one site visit for the SALGHS program conducted in May 2015 in which 17 participants were tested, there was no documentation that income had been verified by the AAA for 10 participants, no documentation that assets had been verified for all 17 participants, and no documentation that age had been verified for 3 participants. However, these results had not been formally communicated to the AAA for corrective action.

The annual site visits are critical to ensure that AAAs that receive Senior Care and SALGHS grant funding are operating effectively and according to applicable program performance standards as stipulated in State regulations and MDOA's *AAA Monitoring and Assessment Policy*. Furthermore, MDOA's *Policy* stipulates that written reports highlighting areas in need of correction should be submitted to applicable AAA management, and the AAA is to submit a written plan for following up and carrying out recommended actions.

## **Recommendation 2**

**We recommend that MDOA**

- a. conduct all site visit reviews as required and in a timely manner; and**
- b. ensure that the results and conclusions of its site visit reviews are formally documented and communicated to the AAAs, as required, and that appropriate corrective action is taken.**

**Finding 3****MDOA did not ensure that administrative costs incurred by AAAs for the Senior Care grant program were within the required spending limits.****Analysis**

MDOA did not ensure that Senior Care grant expenditures incurred by AAAs complied with MDOA policy, which provided that administrative costs may not exceed 10 percent of the AAAs' Senior Care budget. Specifically, MDOA did not have a procedure in place to identify, investigate, and resolve instances in which AAA administrative costs exceeded the allowable 10 percent of awarded Senior Care grant funds. The policy is intended to maximize the funding for actual community services rather than for administrative costs.

MDOA limited administrative costs budgeted during the initial Senior Care grant application process; however, no subsequent reviews were performed to ensure that the AAAs' actual administrative expenditures were within permitted limits. In this regard, while some AAAs separately reported actual administrative expenditures, MDOA did not require that the annual expenditure reports submitted provide this level of detail.

Our test of administrative costs for 10 AAAs with budgeted Senior Care grant expenditures totaling \$5.4 million for fiscal year 2015, disclosed that, for 3 AAAs, expenditure reports received by MDOA did not separately identify administrative expenditures. These 3 AAAs had budgeted Senior Care grant expenditures of \$1,562,325 for fiscal year 2015. In addition, 2 AAAs tested reported administrative expenditures in excess of the maximum allowed. Specifically, one AAA with a grant budget of \$173,907 had administrative costs of \$30,582, approximately \$13,000 in excess of the permitted 10 percent (\$17,391). The other AAA, with a grant budget of \$990,139, had administrative costs of \$111,261, approximately \$12,000 in excess of the permitted 10 percent (\$99,014).

Without adequate reporting and review of actual administrative expenditures made by AAAs, MDOA does not have assurance that amounts allocated for community services were spent on these services and were not spent on local administrative costs. MDOA's failure to investigate over-expenditures by AAAs on Senior Care administrative costs was commented upon in our preceding audit report.

**Recommendation 3**

**We recommend that MDOA ensure that AAAs do not expend Senior Care program funds on administrative costs in excess of established limits.**

**Specifically, we recommend that MDOA**

- a. require that administrative expenditures be specifically reported in the AAA annual expenditure reports;**
- b. monitor expenditure data submitted by the AAAs for compliance with its established policy and implement a procedure to identify, investigate, and resolve instances in which administrative costs exceed the established limit, including for those AAAs noted above (repeat); and**
- c. document the results of its investigations (repeat).**

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

We have conducted a fiscal compliance audit of the Maryland Department of Aging (MDOA) for the period beginning May 14, 2013 and ending May 24, 2016. 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 MDOA'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 State grant programs, payroll, federal fund reimbursements, and procurements and disbursements for operating expenditures. We also determined the status of six of the seven findings contained in our preceding audit report.

Our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs and an assessment of MDOA's compliance with those laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including MDOA.

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

MDOA'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 relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect MDOA'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. Another less significant finding was communicated to MDOA that did not warrant inclusion in this report.

MDOA's response 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 MDOA regarding the results of our review of its response.

APPENDIX

Larry Hogan  
*Governor*

Rona E. Kramer  
*Secretary*



Boyd K. Rutherford  
*Lt. Governor*

DEPARTMENT OF AGING

March 3, 2017

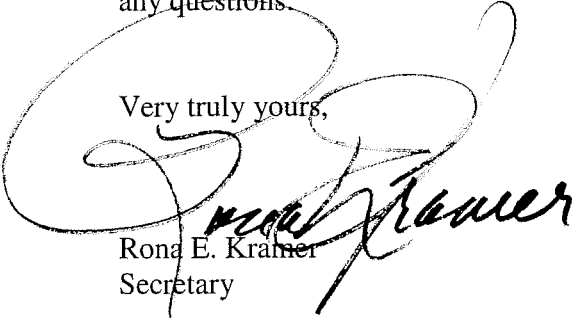
Thomas J. Barnickel III, CPA  
Legislator Auditor  
State of Maryland  
Office of Legislative Audits  
State Office Building, Room 1202  
301 West Preston Street,  
Baltimore, Maryland 21201

Dear Mr. Barnickel,

Attached please find the Maryland Department of Aging's response to the draft audit report on the Department for the period beginning May 14, 2013 and ending May 24, 2016.

I would like to thank the members of the Office of Legislative Audits for their assistance and professionalism during the review. Please do not hesitate to contact me if you have any questions.

Very truly yours,

  
Rona E. Kramer  
Secretary

Enclosure

## **Finding 1 - Response**

As to the period after January 2015, the Maryland Department of Aging (“Department” or “MDoA”) immediately took significant action to address deficiencies in the auditing/Financial Review monitoring of the Area Agencies on Aging (AAAs). MDoA has one auditor position and the Department took appropriate personnel action to deal with employee performance issues. Personnel rules prevented the Department from hiring another auditor or using a contracted audit firm to continue Financial Reviews of the AAAs, while, at the same time, pursuing the correction of said existing personnel performance issues.

The now vacant Senior Auditor position (again, MDoA’s only auditor position) is in recruitment. In addition, the Department hired a Deputy Director of Operations and Fiscal Services with a strong knowledge of audit processes, risk assessment and audit programs to supervise this section.

The finding notes that the reviews lacked supervisory approval. Supervisors did in fact attend the on-site financial audit process and did review the Financial Reviews, however, due to the poor quality of the work and the supporting work papers, supervisors were unable to provide approval.

It is important to note that other processes were established and performed, within the Department, to mitigate the personnel deficiency. In the Spring of 2015, a new payment process was implemented which included program managers’ review of the AAAs’ Requests For Payment against supporting financial reports.

The Audit recommendations all relate to the Department’s auditor doing the job appropriately. Individual responses are below:

- a. The Department has already developed a very detailed Financial Review plan with emphasis on the scope; risk assessment; sampling and testing of expenditures; the content and quality of the work papers; the format for writing and communicating the findings and review; and signoff and approval by supervisory management. This plan will be used in future audits and will be modified as necessary for improvements.
- b. The Department is ensuring that all grants receive the appropriate level of financial screening during our payment process, including reviewing any grant specific requirements or unique program directives.
- c. The Department will perform all future Financial Reviews in conformance with the Financial Review plan discussed in (a).

### **Finding 2 - Response**

The Department has already completed all necessary required monitoring visits through FY 2016.

- a. The Department concurs with this recommendation and is establishing revised Monitoring and Reporting Policies, which will ensure all monitoring visits are completed in a timely manner as specified in the policy. This will be implemented by July 1, 2017.
- b. The Department concurs with this recommendation and, following actions outlined in (a), will communicate monitoring report results and conclusions to MDoA supervisors and the local AAA. The Policies will also include procedures to ensure deficiencies are communicated and necessary corrective actions are addressed.

### **Finding 3 - Response**

After January 2015, the Department immediately implemented improvements in the reporting of administrative expenditures by AAAs in the Senior Care program. This included a revised application tool and budget to confirm administrative expenditures were within the allowed limits. To the recommendations provided, the Department provides the following response:

- a. The Department concurs with this recommendation. The Department will require that administrative expenditures be reported in AAA Senior Care annual expenditure reports beginning with FY 2017 end-of-year reports.
- b. The Department concurs with this recommendation. The Department will include, in the Monitoring and Reporting Policies, directives for MDoA to review expenditure data to identify and resolve instances when administrative costs exceed the established limit.
- c. The Department concurs with this recommendation and, following actions outlined in (b), will prepare and share investigation documents with MDoA supervisors and the local AAA.



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