Audit Report

Department of Health and Mental Hygiene
Deer’s Head Center

July 2005

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DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY
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July 8, 2005

Delegate Charles E. Barkley, Co-Chair, Joint Audit Committee
Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Deer’s Head Center (DHC) of the Department of Health and Mental Hygiene for the period beginning October 17, 2001 and ending March 31, 2005.

Our audit disclosed that DHC did not comply with certain requirements of the Department of General Services’ Inventory Control Manual regarding controls over property. Our audit also disclosed that certain donated funds available for DHC’s use had not been spent because of uncertainty as to the proper use of the funds.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor
Background Information

Agency Responsibilities

The Deer’s Head Center (DHC), which is located in Salisbury, Maryland, provides chronic care and treatment to patients requiring a hospital-level rehabilitation program, long-term nursing home care, and inpatient and outpatient renal dialysis services. During fiscal year 2004, DHC had a licensed capacity of 156 inpatients, a budgeted average daily population of 81 inpatients, and an actual average daily population of 82 inpatients; DHC’s dialysis unit also provided 15,795 dialysis treatments to 184 patients. DHC is accredited by the Joint Commission on Accreditation of Healthcare Organizations.

Current Status of Findings From Preceding Audit Report

Our audit included a review to determine the current status of the two fiscal/compliance findings contained in our preceding audit report dated January 10, 2002. We determined that DHC satisfactorily addressed these findings.
Findings and Recommendations

Property

Finding 1
Property records were not adequately maintained.

Analysis
Property records were not maintained in compliance with certain requirements of the Department of General Services’ Inventory Control Manual. The book value of DHC’s property, as recorded on DHC’s records as of May 6, 2005, totaled approximately $18 million, including equipment valued at $2.8 million.

• DHC did not maintain land and building control accounts. In addition, the equipment control account included disposal information derived directly from the detail records, rather than from disposal forms approved by the Department of General Services.

• The equipment control account had not been reconciled with the related detail records during fiscal year 2005. In addition, the June 2004 reconciliation included an unsupported adjustment, totaling $120,651, which was made to reconcile the two records.

• DHC did not always record capital equipment items in its detail records. Specifically, our test of 10 equipment purchases, totaling approximately $208,000, that were made between August 2003 and January 2005, disclosed that 5 purchases totaling $127,133 were not recorded in the records as of April 2005.

The Department of General Services’ Inventory Control Manual requires that a control account be maintained on a current basis independent of the detail records and be periodically reconciled with the detail records. In addition, the Manual requires that all capital equipment items be recorded in the detail equipment records.

Recommendation 1
We recommend that DHC comply with the provisions of the Department of General Services’ Inventory Control Manual. We also recommend that any adjustments to the property records be properly investigated, documented, and approved.
Welfare Funds

**Finding 2**
DHC decided to cease spending all donated funds in 1999 due to uncertainty as to how to use such funds.

**Analysis**
DHC decided to cease spending all donated funds in 1999 as a result of a reevaluation of restrictions on the use of donated funds. According to DHC’s records, these donations were used to benefit patients of DHC’s Kidney Dialysis Unit (such as for the purchase of equipment). Prior to July 1984, the earliest records available, an individual made a donation exceeding $100,000 to benefit DHC’s Kidney Dialysis Unit. DHC did not retain documentation of this bequest and any related restrictions. According to the State’s accounting records, donated funds remaining from all sources totaled approximately $55,400 as of March 31, 2005.

**Recommendation 2**
We recommend that DHC consult with its legal counsel regarding the proper course of action available to use these donated funds.
Audit Scope, Objectives, and Methodology

We have audited the Deer’s Head Center (DHC) of the Department of Health and Mental Hygiene for the period beginning October 17, 2001 and ending March 31, 2005. The audit was conducted in accordance with generally accepted government auditing standards.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine DHC’s financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the current status of the findings 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, inspection of documents and records, and observation of DHC’s 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 DHC’s cash transactions because the Office of the State Treasurer was unable to reconcile the State’s main bank accounts during the audit period. Due to this condition, we were unable to determine, with reasonable assurance, that all DHC cash transactions were accounted for and properly recorded on the related State accounting records as well as the banks’ records.

DHC’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.

Our audit disclosed conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect DHC’s 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 significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to DHC that did not warrant inclusion in this report.

The response from the Department of Health and Mental Hygiene, on behalf of DHC, 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.
July 7, 2005

Bruce A. Myers, C.P.A.
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
Room 1202
301 West Preston Street
Baltimore, MD 21201

Dear Mr. Myers:

Thank you for your letter regarding the Department of Health and Mental Hygiene’s audit report for Deer’s Head Center. Enclosed you will find the Department’s plan that addresses each audit recommendation. I will work with the appropriate Directors of Administration, Program Directors, and Deputy Secretary to promptly address each audit finding. In addition, the Department’s Division of Internal Audits will follow-up on the recommendations to ensure compliance.

Thank you again for your letter. If you have any questions, please do not hesitate to contact Mr. Thomas V. Russell, Inspector General. He may be reached at 410-767-5862.

Sincerely,

S. Anthony McCann
Secretary

Enclosure

cc: Mr. Thomas V. Russell
    Michelle A. Gourdine, M.D.
    Ellwood L. Hall, Jr.
    Russell W. Moy, M.D., M.P.H.
    Ms. Sandra K. Smith
Findings and Recommendations

Property

Finding 1
Property records were not adequately maintained.

Recommendation 1
We recommend that Deer’s Head Center (DHC) comply with the provisions of the Department of General Services’ Inventory Control Manual. We also recommend that any adjustments to the property records be properly investigated, documented, and approved.

Administration Response:
DHC concurs with the recommendation. Land and Building control accounts were established on June 30, 2005 and will be regularly maintained. Disposals will now be entered directly from the DGS approved forms into the Equipment control account. The Equipment control account has been reconciled and the $120,651 adjustment removed. All purchased items have been posted and entered into the detail records.

Welfare Funds

Finding 2
DHC decided to cease spending all donated funds in 1999 due to uncertainty as to how to use such funds.

Recommendation 2
We recommend that DHC consult with its legal counsel regarding the proper course of action available to use these donated funds.

Administration Response:
DHC concurs with the recommendation. We have contacted our representative from the Office of the Attorney General who recommended transferring the money into the custody of the DHC Foundation. We will contact the State Treasurer’s office and attempt to complete the transfer process by September 30, 2005.
Audit Team

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