

Audit Report

**Maryland Department of Health
Potomac Center**

January 2018



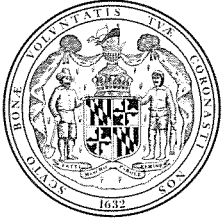
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

For further information concerning this report contact:

Department of Legislative Services
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, Maryland 21201
Phone: 410-946-5900 · 301-970-5900
Toll Free in Maryland: 1-877-486-9964
Maryland Relay: 711
TTY: 410-946-5401 · 301-970-5401
E-mail: OLAWebmaster@ola.state.md.us
Website: www.ola.state.md.us

The Office of Legislative Audits operates a Fraud Hotline to report fraud, waste, or abuse involving State of Maryland government resources. Reports of fraud, waste, or abuse may be communicated anonymously by a toll-free call to 1-877-FRAUD-11, by mail to the Fraud Hotline, c/o Office of Legislative Audits, or through the Office's website.

The Department of Legislative Services does not discriminate on the basis of age, ancestry, color, creed, marital status, national origin, race, religion, gender, gender identity, sexual orientation, or disability in the admission or access to its programs, services, or activities. The Department's Information Officer has been designated to coordinate compliance with the nondiscrimination requirements contained in Section 35.107 of the Department of Justice Regulations. Requests for assistance should be directed to the Information Officer at 410-946-5400 or 410-970-5400.



DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

January 3, 2018

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 Potomac Center, a unit of the Maryland Department of Health's Developmental Disabilities Administration, for the period beginning June 10, 2013 and ending May 17, 2017. The Center is a State residential facility with the primary purpose of providing services intended to maximize the physical, intellectual, emotional, and social development of individuals who have borderline to profound intellectual disabilities.

Our audit disclosed that the Center did not have adequate procedures to ensure the propriety of payroll payments for its direct care workers.

The Department'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

The Potomac Center is a State residential facility for adult individuals with intellectual disabilities. It is located in Hagerstown, Maryland and serves individuals from the entire State. The Center provides services intended to maximize the physical, intellectual, emotional, and social development of individuals who have borderline to profound intellectual disabilities. It also provides habilitative services to expedite the return of individuals to a less restrictive environment. Furthermore, the Center operates a Transitions Program to serve individuals who have both intellectual disabilities and mental illness and to provide a therapeutic habilitation model before discharge to the community.

The Center, which is a budgetary unit within the Maryland Department of Health's Developmental Disabilities Administration, has a licensed capacity of 63 residents. During fiscal year 2016, the Center had an actual average daily population of 39 residents. According to the State's records, the Center's fiscal year 2016 expenditures totaled approximately \$13.9 million.

Status of Findings from Preceding Audit Report

Our audit included a review to determine the status of the three findings contained in our preceding audit report dated January 7, 2014. We determined that the Center satisfactorily addressed these findings.

Findings and Recommendations

Payroll

Finding 1

The Center did not have adequate procedures in place to ensure the propriety of time recorded and processed for direct care workers.

Analysis

The Center did not have adequate procedures in place to ensure the propriety of time recorded and processed for its direct care workers. According to the State's records, payroll expenditures related to direct care workers totaled approximately \$2.5 million in calendar year 2016. Unlike the Center's other employees who recorded their time directly into the Statewide Personnel System (SPS) for

supervisory approval and processing, direct care workers completed manual time records from which another employee recorded hours worked in SPS. However, the manual time records were not approved by the workers' immediate supervisors. In addition, although a human resources supervisor subsequently reviewed and approved the time recorded in SPS for these employees, the supervisor did not review the time records supporting these entries. As a result, there was a lack of assurance that the time recorded in SPS for direct care workers was proper.

We judgmentally selected for testing nine overtime payments made to direct care workers during fiscal year 2017. Our test disclosed four payments for which the total overtime hours recorded in SPS for the applicable pay periods differed from the hours recorded on the corresponding manual time records, in each case by one half hour to three hours. Although these differences were not significant, they support the need for an adequate verification of time recorded. In addition, State regulations require that the employee and the employee's supervisor sign the employee's time record as an attestation to the record's accuracy and completeness.

Recommendation 1

We recommend that the Center

- a. ensure that direct care workers' manual time records are approved by their immediate supervisors, and**
- b. ensure that the approved manual time records for the direct care workers are reviewed by the supervisor responsible for approving the time recorded in SPS.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Potomac Center, a unit of the Maryland Department of Health's Developmental Disabilities Administration, for the period beginning June 10, 2013 and ending May 17, 2017. 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 procurements and disbursements, corporate purchasing cards, and payroll. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include certain support services provided to the Center by the Department. These support services (such as certain payroll and purchasing functions, maintenance of accounting records, and related fiscal functions) are included within the scope of our audit of the Department's Office of the Secretary and Other Units.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of the Center'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), as well as 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 sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from the Statewide Personnel System (SPS) for the purpose of testing certain payroll and leave transactions, including the conversion of employee data to SPS. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the 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.

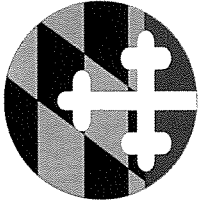
Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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 a finding relating to a condition that we consider to be a significant deficiency 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. This finding is also regarded as a significant instance of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to the Center that did not warrant inclusion in this report.

The Department'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 the Department regarding the results of our review of its response.

APPENDIX



MARYLAND
Department of Health

Larry Hogan, Governor · Boyd Rutherford, Lt. Governor · Dennis Schrader, Secretary

December 14, 2017

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

Dear Mr. Barnickel,

Thank you for your letter regarding the draft audit report on the Potomac Center for the period beginning June 10, 2013 and ending May 17, 2017. Enclosed is 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 all audit exceptions. In addition, the OIG's Division of Audits will follow-up on the recommendations and responses 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 R. Steinberg, Acting Inspector General, at 410-767-6039.

Sincerely,

A handwritten signature in black ink, reading "Dennis R. Schrader".

Dennis R. Schrader
Secretary

Enclosure

cc: J. David Lashar, Chief of Staff
Susan R. Steinberg, Acting Inspector General, MDH

Findings and Recommendations

Payroll

Finding 1

The Center did not have adequate procedures in place to ensure the propriety of time recorded and processed for direct care workers.

Recommendation 1

We recommend that the Center

- a. ensure that direct care workers' manual time records are approved by their immediate supervisors, and**
- b. ensure that the approved manual time records for the direct care workers are reviewed by the supervisor responsible for approving the time recorded in SPS.**

Center's Response

- a. The Center concurs with the recommendation. As of October 2017, the Center has reformatted the direct care worker's manual time records (logs) to include an initial box for the on-duty supervisor or designated lead staff to attest to the review and approval of the time submitted by the employee.
- b. The Center concurs with the recommendation. In a sampling of 20% of the related payroll, as of October 2017 and for each pay period, the Center's supervisors approving time into SPS have begun reviewing applicable supporting documentation to ensure the accuracy of data entry and completeness of timesheets. Additional staff have been identified to monitor compliance.

AUDIT TEAM

William R. Smith, CPA
Audit Manager

Nicholas J. Caronna, CPA
Senior Auditor

Albert E. Davison
Staff Auditor