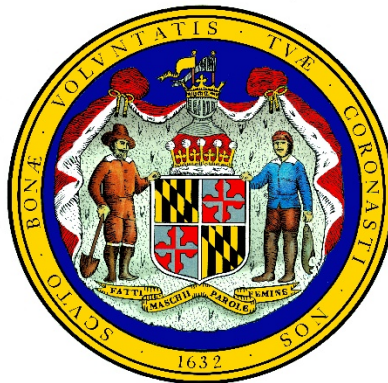


Audit Report

**Maryland Department of Health
Intellectual Disabilities Residential Centers**

Holly Center and Potomac Center

June 2026



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

June 5, 2026

Senator Shelly L. Hettleman, Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland Department of Health (MDH) – Holly Center and Potomac Center, which includes the Secure Evaluation and Therapeutic Treatment (SETT) Program for the period beginning July 1, 2021 and ending June 30, 2025. These units, collectively referred to as the Intellectual Disabilities Residential Centers (IDRC) provide comprehensive services to maximize the physical, intellectual, emotional, and social development of individuals who have borderline to profound intellectual disabilities.

Our audit disclosed that the Potomac Center did not deposit \$168,500 in patient funds received since March 2020 including 1,295 checks and money orders totaling \$166,700 and \$1,800 in cash. In addition, the Potomac Center did not properly safeguard these undeposited funds and could not locate \$48,200 including 91 checks totaling \$46,000. Finally, the Potomac Center did not return \$13,800 in unspent patient funds to 7 patients who were discharged.

MDH Healthcare System’s response to this audit, on behalf of the IDRCs, is included as an appendix to this report. We reviewed the response and noted agreement to our finding and related recommendations and will notify MDH Healthcare System of any needed clarification to ensure the responses sufficiently address the related finding.

We wish to acknowledge the cooperation extended to us during the audit by the IDRCs.

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

Background Information

Agency Responsibilities

The Maryland Department of Health (MDH) operates two Intellectual Disabilities Residential Centers (IDRCs). The IDRCs are the Holly Center and the Potomac Center, which includes the forensic residential center Secure Evaluation and Therapeutic Treatment (SETT) Program. The IDRCs are federally certified Intermediate Care Facilities for Individuals with Intellectual Disabilities. According to the State’s records, during fiscal year 2025, IDRCs’ operating expenditures totaled approximately \$63.2 million, which consisted primarily of general fund expenditures (see Figure 1).

As of June 30, 2025, 11 percent of the total 470 positions were vacant. The individual vacancy rates for the Holly Center and the Potomac Center/SETT were 9 percent and 13 percent, respectively. Vacancies at the Potomac Center may have contributed, at least in part, to the finding in this report.

Figure 1
IDRC Positions, Expenditures, and Funding Sources

Full-Time Equivalent Positions as of June 30, 2025	
Positions	
Filled	418
Vacant	52
Total	470
Fiscal Year 2025 Expenditures	
Expenditures	
Salaries, Wages, and Fringe Benefits	\$49,318,477
Technical and Special Fees	2,842,359
Operating Expenses	11,035,767
Total	\$63,196,603
Fiscal Year 2025 Funding Sources	
Funding	
General Fund	\$63,124,932
Special Fund	46,372
Reimbursable Fund	25,299
Total	\$63,196,603

Source: State financial and personnel records

- **Holly Center** provides comprehensive services for individuals with intellectual disabilities that reside in the nine counties of Maryland's Eastern Shore. As of June 30, 2025, the Holly Center had a licensed capacity of 100 inpatient residents. During fiscal year 2025, the Holly Center had an average daily inpatient population of 45 residents. According to the State's records, the Holly Center's expenditures were approximately \$22.7 million during fiscal year 2025.
- **Potomac Center** serves individuals with intellectual disabilities from the entire State. The Potomac Center provides services intended to maximize the physical, intellectual, emotional, and social development of individuals with borderline to profound intellectual disabilities. It also provides habilitative services to expedite the return of individuals to a less restrictive environment. Furthermore, the Potomac 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. As of June 30, 2025, the Potomac Center has a licensed capacity of 62 residents. During fiscal year 2025, the Potomac Center had an average daily inpatient population of 42 residents. According to the State's records, the Potomac Center's expenditures were approximately \$26.9 million during fiscal year 2025.

SETT provides evaluation, assessment, and active treatment to people with intellectual disabilities and court involvement. As of June 30, 2025, SETT has a licensed inpatient capacity of 32 residents. During fiscal year 2025, SETT had an average daily inpatient population of 23 residents. According to the State's records, SETT expenditures were approximately \$12.7 million during fiscal year 2025.

- **Developmental Disabilities Administration Facility Maintenance** program provides facility maintenance services to three closed facilities that no longer provide services to individuals with intellectual disabilities: Joseph D. Brandenburg Center which closed June 30, 2011; Rosewood Center which closed June 30, 2009; and Henryton Center which closed in fiscal year 1985. According to the State's records, expenditures were approximately \$900,000 during fiscal year 2025. MDH advised us that these expenditures primarily relate to workers compensation, utilities, and security services for the Rosewood Center.

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 October 24, 2022. See Figure 2 for the results of our review.

Figure 2 Status of Preceding Findings		
Preceding Finding	Finding Description	Implementation Status
Finding 1	The Potomac Center obtained nursing services using contracts that had been fully expended and/or expired. In addition, the related invoices were not adequately verified and were paid using improper payment methods.	Not repeated
Finding 2	The Holly Center prepayment review of amounts invoiced for nursing services was not sufficiently comprehensive.	Not repeated
Finding 3	Ten Holly Center employees potentially violated State ethics law and Maryland Department of Health policy by having secondary employment with vendors that provided services to the Holly Center, including one employee that participated in the oversight of these vendors.	Not repeated
Finding 4	The Potomac Center and the Holly Center had not established adequate controls to ensure the propriety of payroll transactions, including adjustments to employee pay and leave balances.	Not repeated

Findings and Recommendations

Patient Funds

Finding 1

The Potomac Center did not deposit or adequately secure \$168,500 in patient fund collections recorded as received since March 2020 and could not locate \$48,200 of the undeposited funds. In addition, the Center did not return \$13,800 in unspent funds to 7 patients discharged prior to March 2025.

Analysis

The Potomac Center did not properly control and account for patient funds. Patient funds consist of amounts earned by or received on behalf of the Center's patients. The Center is responsible for processing collections and disbursements of these funds on the patient's behalf and accurately maintaining the related records.

- As of February 2026, the Center had not deposited any of the approximately \$168,500 in recorded collections received between March 2020 and January 2026 including 1,295 checks and money orders totaling \$166,700 and \$1,800 in cash. According to Center management this condition resulted from the Center's failure to open a new bank account for patient funds when the State changed banks in March 2020. Center management could not readily explain why a new account was not opened over the ensuing six-year period. The failure to deposit the collections is significant because 1,145 checks totaling \$117,400 were more than 6 months old and may no longer be valid.¹ In addition, the Center had to use State funds to cover patient purchases totaling \$131,800 that should have been paid for with the undeposited checks.
- The Center did not restrictively endorse and record the patient fund checks upon receipt. Specifically, our review of the aforementioned undeposited checks on hand disclosed that none of the checks were restrictively endorsed. In addition, 27 of the undeposited checks totaling approximately \$600 were not recorded upon receipt. Restrictive endorsements limit how the check can be used, enhancing security and preventing unauthorized transactions, and recordation of the funds establishes accountability over the funds should they subsequently go missing.

¹ State law provides that a bank is not obligated to pay checks presented six months after the check date.

- The Center could not locate approximately \$48,200 of the recorded but undeposited collections including 91 checks totaling \$46,000, 10 money orders totaling \$400, and cash totaling \$1,800. Despite numerous attempts to locate the funds in response to our inquiries, as of March 20, 2026, the Center could not locate these collections or provide the disposition of these funds. For example, the Center had not researched any of the missing checks to determine if they had been deposited into another Center account or into a non-State account.
- The Center did not return unspent patient funds when the patients were discharged. For example, as of December 2025, the Center had not returned funds totaling approximately \$13,800 to 7 patients who were discharged prior to March 2025.

The aforementioned conditions precluded the Center from recording these funds in the State’s accounting records and from properly accounting for the patient funds. This contributed to the missing checks going undetected until we brought the matter to their attention.

The Comptroller of Maryland’s *Accounting Policies and Procedures Manual* requires that all collections be recorded and restrictively endorsed immediately upon receipt, generally deposited within one business day of receipt, and recorded in the State’s accounting records. In addition, State law requires any patient funds in excess of \$300 to be deposited into separate interest-bearing accounts and that discharged patients be paid any balance in their account, including interest earned, within three banking days.

Recommendation 1

We recommend that MDH Healthcare System ensure the Potomac Center

- immediately establishes appropriate bank accounts for patient fund collections as required, and works with MDH to determine the validity and proper disposition of the undeposited checks;**
- investigates the aforementioned missing funds and takes appropriate action including referring any missing funds to the Office of the Attorney General – Criminal Division;**
- restrictively endorses checks and money orders, and records and timely deposits all collections; and**
- returns funds to patients upon discharge, including those noted above.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the following units of the Maryland Department of Health (MDH): the Holly Center and the Potomac Center, which includes the forensic residential center Secure Evaluation and Therapeutic Treatment (SETT) Program for the period beginning July 1, 2021 and ending June 30, 2025. These units are collectively referred to as the Intellectual Disabilities Residential Centers (IDRCs).

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 IDRCs' 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 certain procurements and disbursements for operating expenditures, corporate purchasing cards, patient funds, equipment, admissions, and certain payroll activities. We also determined the status of the findings included in our preceding audit report.

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

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of July 1, 2021 to June 30, 2025, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions,

and to the extent practicable, observations of operations at the IDRCs. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us 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 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 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 audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

Under MDH Healthcare System, a part of MDH Office of the Secretary, the IDRCs' managements are 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. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to the IDRCs, were considered by us during the course of this audit.

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 conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect the IDRCs' ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. This finding is also considered a significant instance of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to the IDRCs that did not warrant inclusion in this report.

The response from MDH Healthcare System, on behalf of the IDRCs, to our finding 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 MDH regarding the results of our review of its response.

Exhibit 1
Listing of Most Recent Office of Legislative Audits
Fiscal Compliance Audits of Maryland Department of Health Units
As of May 2026 (Page 1 of 2)

Name of Audit		Areas Covered	Most Recent Report Date
1	Medical Care Programs Administration	Medical Care Programs Administration	05/20/26
2	Office of the Chief Medical Examiner	Office of the Chief Medical Examiner	05/19/26
3	Medical Care Programs Administration – Managed Care Program	<ul style="list-style-type: none"> Managed Care Program, known as HealthChoice includes oversight of the nine private Managed Care Organizations 	01/14/26
4	Behavioral Health Administration and Medical Care Programs Administration - Administrative Service Organization for Behavioral Health Services	<ul style="list-style-type: none"> Behavioral Health Administration Medical Care Programs Administration Administrative Service Organization for Behavioral Health Services 	10/03/25
5	Regional Institutes for Children and Adolescents	<ul style="list-style-type: none"> John L. Gildner Regional Institute for Children and Adolescents Regional Institute for Children and Adolescents – Baltimore 	08/25/25
6	Developmental Disabilities Administration	Developmental Disabilities Administration	06/18/25
7	Regulatory Services	<ul style="list-style-type: none"> 22 Health Professional Boards and Commissions The Office of Health Care Quality 	04/09/25
8	Vital Statistics Administration	Vital Statistics Administration	03/19/25
9	Prevention and Health Promotion Administration - Office of Population Health Improvement - Office of Preparedness and Response - Office of Provider Engagement and Regulation	<ul style="list-style-type: none"> Prevention and Health Promotion Administration Office of Population Health Improvement Office of Preparedness and Response Office of Provider Engagement and Regulation – Office of Controlled Substances Administration 	08/09/24

Exhibit 1
Listing of Most Recent Office of Legislative Audits
Fiscal Compliance Audits of Maryland Department of Health Units
As of May 2026 (Page 2 of 2)

Name of Audit		Areas Covered	Most Recent Report Date
		<ul style="list-style-type: none"> Office of Provider Engagement and Regulation – Prescription Drug Monitoring Program 	
10	Pharmacy Services	Pharmacy Services	08/09/24
11	Laboratories Administration	Laboratories Administration	06/05/24
12	State Psychiatric Hospital Centers	<ul style="list-style-type: none"> Clifton T. Perkins Hospital Center Eastern Shore Hospital Center Spring Grove Hospital Center Springfield Hospital Center Thomas B. Finan Hospital Center 	05/29/24
13	Health Regulatory Commissions	<ul style="list-style-type: none"> Maryland Health Care Commission Health Services Cost Review Commission Maryland Community Health Resources Commission 	01/25/24
14	Office of the Secretary and Other Units	<ul style="list-style-type: none"> Office of the Secretary Deputy Secretary and Executive Director for Behavioral Health Deputy Secretary for Developmental Disabilities Deputy Secretary for Public Health Deputy Secretary for Health Care Financing and Chief Operating Officer Deputy Secretary for Operations 	10/19/23
15	Chronic Care Hospital Centers	<ul style="list-style-type: none"> Deer’s Head Center Western Maryland Hospital Center 	05/10/23



DEPARTMENT OF HEALTH

Wes Moore, Governor · Aruna Miller, Lt. Governor · Meena Seshamani, M.D., Ph.D., Secretary

June 4, 2026

Mr. Brian S. Tanen, CPA, CFE
Legislative Auditor
Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, MD 21201

Dear Mr. Tanen:

Enclosed, please find the responses to the draft audit report on the Maryland Department of Health – Intellectual Disabilities Residential Centers – Holly Center and Potomac Center for the period beginning July 1, 2021 and ending June 30, 2025.

If you have any questions, please contact Frederick D. Doggett at 410-767-0885 or email at frederick.doggett@maryland.gov.

Sincerely,

A handwritten signature in blue ink, appearing to read "Meena Seshamani".

Meena Seshamani, M.D., Ph.D.
Secretary

cc: Kate Wolff, Chief of Staff
Emily Berg, JD, MPH, Deputy Chief of Staff
Anita Everett, Director, MDH Healthcare System
Clint Hackett, Deputy Secretary for Operations
Frederick D. Doggett, Director, Internal Controls, Audit Compliance & Information Security, MDH
Deneen Toney, Deputy Director, Internal Controls, Audit Compliance & Information Security, MDH
Carlean Rhames-Jowers, Chief Auditor, Internal Controls, Audit Compliance & Information Security, MDH

**Maryland Department of Health
Intellectual Disabilities Residential Centers
Holly Center and Potomac Center**

Agency Response Form

Patient Funds

Finding 1

The Potomac Center did not deposit or adequately secure \$168,500 in patient fund collections recorded as received since March 2020 and could not locate \$48,200 of the undeposited funds. In addition, the Center did not return \$13,800 in unspent funds to 7 patients discharged prior to March 2025.

We recommend that MDH Healthcare System ensure the Potomac Center

- a. immediately establishes appropriate bank accounts for patient fund collections as required, and works with MDH to determine the validity and proper disposition of the undeposited checks;**
- b. investigates the aforementioned missing funds and takes appropriate action including referring any missing funds to the Office of the Attorney General – Criminal Division;**
- c. restrictively endorses checks and money orders, and records and timely deposits all collections; and**
- d. returns funds to patients upon discharge, including those noted above.**

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	The undeposited funds totaling \$48,200, identified as unlocated by OLA, have been physically accounted for as cash on hand, funds pending return to vendors, or funds distributed to discharged residents. Potomac Center will document and finalize a full reconciliation of the entire \$168,500 by August 30, 2026.		
Recommendation 1a	Agree	Estimated Completion Date:	8/30/26
Please provide details of corrective action or explain disagreement.	The MDH Healthcare System and Potomac Center are actively working with the State Treasurer’s Office (STO) to open a new Fulton Bank depository account. The application is currently pending STO final approval, with a target account opening date of June 30, 2026. Once the account is established, the Potomac Center will coordinate with the STO to replace, reissue, or transfer the outdated checks currently being		

**Maryland Department of Health
Intellectual Disabilities Residential Centers
Holly Center and Potomac Center**

Agency Response Form

	secured in the facility safe. This administrative reissuance process is expected to take up to 60 days, concluding by August 30, 2026.		
Recommendation 1b	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	The Potomac Center conducted a comprehensive physical inventory and reconciliation of the check log against the safe's contents. The \$48,200 cited by OLA represents historical discrepancies regarding discharged or transferred residents rather than missing funds. Because all funds have been accounted for and determined not to be missing, a report to the Office of the Attorney General – Criminal Division is not required. All recovered valid checks will be deposited into the new account upon opening.		
Recommendation 1c	Agree	Estimated Completion Date:	7/30/26
Please provide details of corrective action or explain disagreement.	Delays in check deposits were due to the lack of an active depository account. To secure these funds in the interim, administrative staff restrictively endorsed all checks on hand as “For Deposit Only State of Maryland Resident Funds” as of May 15, 2026. Moving forward, a strict timeline will be formalized via local Standard Operating Procedures (SOPs) requiring all incoming collections to be logged, stamped immediately upon receipt, and deposited within 24 business hours once the new bank account is operational.		
Recommendation 1d	Agree	Estimated Completion Date:	8/30/26
Please provide details of corrective action or explain disagreement.	<p>The Potomac Center has initiated the process to transfer the lingering balances of the 7 identified discharged residents to their current providers. Delays were due to satisfying General Accounting guidelines, which require two proofs of residency to update addresses in FMIS.</p> <p>To prevent future delays, the Potomac Center is drafting a local Standard Operating Procedure to mandate a clear, streamlined protocol for transferring balances immediately upon a resident's discharge. Simultaneously, the MDH Healthcare System is updating its system-wide policy (<i>DHMH 02.02.06 - Policy on Management of Facility Residents' Funds</i>) to clarify fiscal oversight and discharge responsibilities across all 11 MDH Healthcare System facilities.</p>		

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