TO: Ms. Jessica Kraus – MS, Executive Director
Core Service Agency of Harford County, Inc.

FROM: Shelly Marie Martin – *Shelly Marie Martin - OIGH*
Inspector General

DATE: October 16, 2025

RE: Audit Report – Core Service Agency of Harford County, Inc.

Background

Consistent with State laws and regulations, the Maryland Office of the Inspector General for Health (OIGH) periodically audits of health care providers to ensure that State funds are expended in accordance with Maryland Department of Health (MDH) guidelines.

Core Service Agency of Harford County, Inc. (CSAHC), located in Bel Air, Maryland, is a nonprofit organization that provides oversight, promotion, and support for the development of accessible, community-based behavioral health services in Harford County. During the audit period (July 1, 2020, to June 30, 2023), CSAHC received $24,011,079 from MDH in support of its mission.

Results of Review

The OIGH determined that $19,374 is due to MDH, resulting from MDH Form 440 and General Ledger Variances, Unallowed Expenditures Charged to MDH Contract, and improperly charged Sales Tax on three invoices. In addition, the OIGH identified several areas in which controls can be improved. Details regarding these issues, along with the OIGH's recommendations, are included in the attached report.

The CSAHC's responses to this audit are included as an appendix to this report. We have reviewed the responses and identified statements in the response that conflicted with or disagreed with the report's finding. We reviewed and reassessed our audit documentation and reaffirmed the validity of our findings in accordance with generally accepted government auditing standards. We have included auditor comments to explain our position.

We acknowledge the cooperation of CSAHC staff during this audit. We also wish to acknowledge CSAHC's willingness to address the audit findings and implement appropriate corrective actions.

Cc: Alyssa Lord, Deputy Secretary, Behavioral Health Administration.

Office of the Inspector General for Health

Audit Report

October 16, 2025

Core Service Agency of Harford County, Inc.

July 1, 2020 through June 30, 2023

Maryland

OFFICE OF THE INSPECTOR GENERAL FOR HEALTH

Maryland Office of Inspector General for Health

Audit Report: Core Service Agency of Harford County, Inc

The Maryland Office of the Inspector General for Health's (OIGH) External Audit Division has performed an audit of the accounts and records of Core Service Agency of Harford County, Inc. (CSAHC) relative to its contracts with the Maryland Department of Health (MDH)'s Behavioral Health Administration (Schedule SC), for the period July 1, 2020 through June 30, 2023.

Objectives of the Examination

The OIGH conducted the audit to:

- Determine the amount of program revenue received and allowable expenditures incurred by the programs.
- Determine any amounts due to the State or to the provider resulting from the operation of the programs during the audit period.
- Determine compliance with the State of Maryland, local county, and MDH policies and regulations.
- Determine compliance with the Maryland Department of Health's Human Services Agreements Manual (HSAM) and approved contracts.
- Provide recommendations for improving internal control, ensuring fiscal compliance, or increasing efficiency.
- Determine the status of any recommendations contained in our prior audit report.

Audit Scope and Methodology

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

Except as noted in the subsequent paragraph, this performance audit was conducted in accordance with generally accepted government auditing standards (GAGAS). These standards require auditors to plan and execute the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. We believe the evidence obtained provides a reasonable basis for the findings and conclusions presented in this report.

In accordance with GAGAS, a Peer Review is required to be conducted at least once every three years by an independent external firm. Peer Reviews serve as periodic evaluations of the quality and effectiveness of an organization's audit work and internal quality control systems. The Office of the Inspector General for Health (OIGH) External Audit Division has not undergone a Peer Review to date. However, the division has expressed its intention to comply with GAGAS Peer Review standards and has tentatively arranged for a peer review to take place in May 2027. Until

the peer review is concluded, the OIGH External Audit Division remains non-compliant with the GAGAS Peer Review requirements.

Presentation of Audit Schedule

- Summary of Amounts Due to MDH
- Schedule of Contracts Audited
- Schedule of MDH Form 440 and General Ledger Variances
- Schedule of Unallowed Expenditures
- Schedule of Sales Tax Cost Disallowances
- Schedule of Unreconciled MDH 440s
- Schedule of Errors made by MDH during Initial Reconciliations

Internal Control

CSAHC'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 the safeguarding of assets and compliance with applicable laws, rules, and regulations are achieved. Our study and evaluation performed of the internal control systems to achieve the objectives of the examination would not necessarily disclose all material weaknesses. Also, because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. 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. Accordingly, we cannot express an opinion on the system of internal control taken as a whole.

Our assessment of internal controls was based on provider 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 but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

Our reports are designed to assist MDH in exercising its oversight functions 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. As a result of tests that were performed, our examination disclosed some weaknesses.

Prior Audit Report

Our audit also included a review to determine the status of the recommendation contained in our preceding audit report of CSAHC dated April 1, 2022. Our review determined that the recommendation was not corrected and is repeated in this report.

Conclusion

As a result of procedures performed, in accordance with the examination objectives set forth above, the OIGH determined that $19,374 is due to MDH. The following is a summary of the amounts due:

Core Service Agency of Harford County, Inc. Summary of Amount Due to MDH Audit Period FY 2021to FY2023			
Finding Number	**Finding Description**	**Amount Due to MDH**	**Report Reference Page**
1	MDH Form 440 and General Ledger Variances	$ 14,784	8
6	Unallowed Expenditures Charged to MDH Contract	4,500	14
8	Sales Tax Charged to three invoices	90	17
	Total Amount Due to MDH	$ 19,374	

Appeal Rights – Appeals to the Division of Cost Accounting and Reimbursement
If you wish to appeal the audit findings, you must notify Nedina Broy Stevenson, Division of Cost Accounting and Reimbursement at Nedinabroy.stevenson@maryland.gov by November 17, 2025.

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* Denotes item was not corrected from preceding audit.

Schedule SC

Core Services Agency of Harford County, Inc.
Schedule of Contract Audited
Fiscal Year 2021 through 2023
BHA Administration

Contract Number	PCA Number	Program	2021	2022	2023
MH367OTH	M2041, M2048, M2049, M2040	PATH Grant	$ 68,475	$ 68,475	$ 139,139
MH345OTH	M2321, M2327, M2328	Federal Block Grant	208,975	208,975	170,000
BH119CRS	N/A	School Intervention Specialist	420,697	111,000	111,000
BH028MAR	N/A	Behavioral Health Crisis Services Walk-In/Urgent	-	61,082	114,965
MH354CSA	M208G	Purchase of Services	-	5,611,671	6,588,196
AS435MDR	M281G	Maryland Recovery Net - Consumer Supports	4,000	4,000	4,000
BH003ECV	MS141	Youth Expansion Covid Funding	-	715,000	-
BH119SUP	MS060	Adolescent Clubhouse Program	225,000	150,000	-
BH001SCS	N/A	Youth Expansion Covid Funding	-	-	917,000
BH038MAM	N/A	COVID-19 Testing and Mitigation	-	42,654	18,101
BH265SOR	N/A	Adolescent Clubhouse Program	-	300,000	-
MH324OTH	M208G, M208R	Admin & POS Grant	5,182,863	-	-
MH324OTH	M208G, M208R	Administration	-	674,459	768,656
MH324OTH	M208G, M208R	FY20, 21 Rollover	209,357	61,300	-
MH355OTH	M2058, M2059, M2051	Continuum of Care	277,636	286,816	287,587
		Total Contract Dollars Audited by Fiscal Year	**$ 6,597,003**	**$ 8,295,432**	**$ 9,118,644**

Total Number of Contracts Audited **31**

Total Contract Dollars Audited **$ 24,011,079**

Findings and Recommendations

Reconciliation

Finding 1 – MDH Form 440 and General Ledger Variances
Expenditures reported on Annual Reports (MDH Form 440) did not always agree with CSAHC's General Ledger.

Analysis
The OIGH's review of MDH Form 440s and CSAHC's General Ledgers disclosed discrepancies between amounts reported as contract expenditures in the Annual Report MDH Form 440 and the amounts recorded in CSAHC's General Ledgers. See schedule below for more details:

Core Service Agency of Harford County, Inc. Schedule of MDH 440 and General Ledger Variances				
Fiscal Year	**Contract Number**	**Contract Description**	**Finding Description**	**Dollar Amount Due to MDH**
2022	BH265SOR	Adolescent Clubhouse Program	MDH Form 440 and General Ledger Variances	$ 7,292
Total Due to MDH FY22				7,292
2023	MH324OTH	Admin	MDH Form 440 and General Ledger Variances	7,492
Total Due to MDH FY23				7,492
Total Due to MDH				**$ 14,784**

Criteria
HSAM 2120.04 Annual Report states: *"A Vendor's Annual Report (DHMH 440) of receipts and expenditures for the budget period must be submitted to the Division of Program Cost and Analysis by August 31, covering the preceding fiscal year. Vendors with multi-year contracts must submit a DHMH 440 for each year of the contract. (Day Care Programs for the Elderly submit the annual report DHMH 2026 by September 30.) Failure to submit this report within the specified time will result in funds being withheld until the reports are filed and reconciliation is complete. This report need not be an audited document. So-called "preliminary" reports will be processed as final reports; therefore, the vendor must not file a report which is not to be relied upon, merely to comply with the filing deadline".*
HSAM Section 2210.05 states, *"The audit reviews expenditures and revenues to determine if they are consistent with the approved budget and supported by adequate documentation, in accordance with generally accepted accounting principles, and/or the grant contract agreement."*

Recommendation 1
The OIGH recommends that CSAHC:
Ensure all expenditures recorded in MDH Form 440s agree with amounts reflected in the General Ledger.

Cost Disallowances from the finding above total $14,784 due to MDH.

Finding 2 – Incorrect Posting of Admin Fees
CSAHC incorrectly posted Administrative Fees to General Ledger

Analysis
The OIGH's review of MDH Form 440s and the General Ledger disclosed that CSAHC incorrectly posted administrative costs of MDH contracts as income in the General Ledger. This occurred as CSAHC did not have adequate controls or review procedures to ensure proper classification of contract-related expenditures. As a result, financial records do not accurately reflect the nature of MDH contract expenses, which could lead to misrepresentation of program costs and reduced reliability of financial reporting.

Criteria
HSAM, section 2150.09 states: "*Unallowable Costs - The following items are costs generally considered to be unallowable for purposes of Departmental grant/contract support.*
The list is not exhaustive; omission does not constitute acceptance as an allowable cost. The Director may allow cost in any of these categories when it is in the public interest to do so; conversely, he/she may elect not to support funding of a cost not listed here, including those generally considered to be allowable under the previous section.
The Unallowable Costs are:
a. Administrative costs which relate to unallowable elements"

Recommendation 2
The OIGH recommends that CSAHC:
Implement procedures to ensure administrative costs for MDH contracts are correctly classified in the General Ledger.

Finding 3 – CPA Reports
CSAHC's audited financial statements did not separate MDH Contract expenditure from total operation.

Analysis
The OIGH's review of CSAHC's audited financial statements (CPA Report) for the audit period disclosed that the CPA Report did not separate MDH Contracts from CSAHC's total operations, although the audit fee was shared on a prorated basis with these programs.

Criteria
HSAM, section 2210.05 states: *"The audit reviews expenditures and revenues to determine if they are consistent with the approved budget and supported by adequate documentation, in accordance with generally accepted accounting principles, and/or the grant contract agreement."*
The CPA Report is an essential part of the program monitoring process.

Recommendation 3
To avoid possible future disallowance, the OIGH recommends that CSAHC:
ensure that the independent CPA Report reflects each of the MDH Contracts separately and isolated from the provider's total operation.

Procurement

Finding 4 –Deficiencies in Procurement Practices and Policies
CSAHC did not always comply with its Procurement Policy.

Analysis
The OIGH reviewed CSAHC's procurement system during the audit period and disclosed that CSAHC did not always comply with its Procurement Policy, and the policy itself requires significant improvement. Key issues noted include:

- The Procurement Policy only addresses equipment purchases and does not specify whether, or how many, quotes are required for other types of purchases.
- The policy lacks sufficient guidance for emergency and sole source procurements, and it does not establish thresholds or requirements for Request for Proposal (RFP) bidding.
- The Procurement Policy has not been updated since Fiscal Year 2015, leaving outdated guidance in place.
- CSAHC classified three vendors as sole source; however, written justifications were not provided as required by policy.

These deficiencies occurred as CSAHC has not prioritized updating and enforcing its procurement policy and has not implemented sufficient oversight to ensure compliance. As a result, CSAHC is exposed to increased risk of noncompetitive procurement practices, reduced transparency, and potential misuse of funds.

Criteria
CSAHC's Procurement Policy States:
Overview
The objectives of CSA's Procurement Policy are as follows:
To maintain an open process that encourages private and public service providers to respond to requests for procurement.
To maintain a fair and equitable process that manages conflict of interest and others issues.
To foster a CSA agency and Board of Director's selection process that is open to outside expertise as necessary.
To develop a review process that encourages full participation by board members.
To develop quality programs that are fiscally sound and clinically relevant to the needs of people with a mental illness.

The CSA will maintain a fair and open process by adhering to the following procedures:
Maintain an updated list of potential services providers.

Advertise the funding opportunity, and when possible allowing sufficient time for potentially interested offerors the chance to respond.

Adhere to the principle that letters of support, reference, or recommendation by current board members shall not be considered on behalf of offerors submitting the Request for Proposal (RFP), concept paper, or other procurement for a program that the CSA intends to fund or is currently funding.

Adhere to the policy that individuals associated with a proposed program, concept, or development of a program or concept shall not be involved in the evaluation review process.

Section I. Request for Proposals
Requests for Proposals (RFP) shall be drafted by the CSA Staff and presented to the Executive Director for review and approval. The Executive Director will then present these proposals to the Core Service Agency Board of Directors Program Committee for review and approval.

The RFP shall be published in the local newspaper with a minimum of the following information:

The purpose of the RFP
The item(s) to be addressed by the applicant in the proposal
The criteria to be used by CSA of Harford County to evaluate the proposal
The process to be used by CSA of Harford County to evaluate the proposal

The due date for the proposal
The Program Committee, consisting of the CSA Executive Director or his/her designee and a minimum of two Board members shall be convened to rank each of the proposals based on their technical merit. All proposals receiving the minimum technical score will then be rated on their financial proposal. The Program Committee will make contract award recommendations to the Board of Directors. The technical merit for the proposal will consist of: qualifications of the applicant whose proposal best meets the selection criteria, and the results of the final technical and financial evaluation. Once a vendor has been selected and approved by Board, letters of award/rejection shall be mailed to the providers notifying the applicants of the status of their proposal request.

Section II Unsolicited Request for Funds

When an unsolicited request for funding is received:
The document/proposal shall:
Be stamped with the date received at CSA
Be submitted to the Chief Financial Officer and the Clinical Coordinator(s) responsible for the program or services
Include a budget and program narrative/description of services
The Clinical Coordinator shall evaluate the request for:
Consistency with the goals and mission of the CSA of Harford County
Benefit to consumers
Creativity
Minority participation
The Chief Financial Officer shall evaluate the request for:
Financial analysis, with the results of the review summarized and presented to the Executive Director, along with recommendation within two weeks of the date received.
The Executive Director shall prepare a written summary of the requests and recommendations, and submit to the Board of Directors (or committee designated by the Board) for approval within ten days of the date reviewed.

E. The requesting provider shall be advised of a decision within sixty (60) days.

Contracts shall be drafted by the appropriate staff member presented to the Executive Director for review and forwarded to the Board Finance and Program Committees. Legal consultation, when appropriate shall be utilized in the contract review process. Contracts for services shall be signed by the Executive Director or the Board President and maintained in the CSA fiscal office.

Section III. Purchase of Equipment
The Purchase of equipment will be segmented into three categories: (A) over $5,000; (B) between $2,500 and $5,000; and (C) purchases under $2,500.
Purchase of Equipment over $5,000
All purchases over $5,000 will be submitted to the CSA Board of Directors for approval and must have three written quotes.

Purchase of Equipment between $2,500 and $5,000 must have at least 2 verbal or written quotes. Verbal quotes must be provided with the following information (vendor name, telephone number, contact person, and price quoted). This information will be documented and maintained in the file with the purchase paperwork.
Under $2,500 Equipment purchases must have the signed approval of the Executive Director.

Section IV. Sole Source Purchases/Contractor

In rare circumstances, a required product or professional services may be available from only one source due to specialization, expertise, technical ability, time constraints or compatibility. Under these circumstances the product or services may be purchased and the purchasing document shall have written justification regarding the sole source purchase and at the discretion of the Executive Director. If the sole source purchase is over $5,000, the CSA Board of Directors must also approve the purchase.

Professional services are not normally subject to competitive bidding. The term "professional services" shall include but not be limited to the services performed by attorneys, physicians, engineers, accountants, consultants and other individuals or organizations possessing a high degree of technical skill and expertise.

Section V. Disaster/Emergencies

In the event of an emergency, as declared by a governmental official sanctioned to make the declaration, (e.g. County Executive, Governor), the Executive Director is authorized to make emergency purchases up to $5,000. In the absence of the Executive Director, the Office on Mental Health Chief Financial Officer and one Executive Board Member has the authority to authorize purchases up to $5,000.

Section VI. Employee Purchases

Under no circumstances will any employee make purchases, commit funds or otherwise bind the CSA to any agreement except with in accordance of the above policy. Any purchases made with disregard to the procurement policy may be subjected to the following action:

The Executive Director will evaluate the purchase. If in the opinion of the Director a benefit was derived and was necessary for the operations of the agency, the Director may approve the purchase.

In the event that the purchase was deemed to have no benefit or was unnecessary for the operations of the agency, the Director may take disciplinary action. The actions may include, but are not limited to:
Hold the employee making the unapproved purchase personally liable for the expense.
Require the employee to take a mandatory suspension without pay.
Terminate the employee.

Recommendation 4
The OIGH recommends that CSAHC:

a. **Update its Procurement Policy to include requirements for competitive quotes on all types of purchases, detailed procedures for emergency and sole source procurements, and defined thresholds for Request for Proposal (RFP) bidding.**
b. **Establish a process to regularly review and revise the Procurement Policy to ensure it remains current with best practices and applicable regulations.**
c. **Implement stronger oversight to ensure compliance with the updated policy, including requiring written justifications for sole source procurements and maintaining documentation to support all procurement decisions.**

Finding 5 – Lack of Vendor Business Verification
CSAHC did not verify vendors standing with SDAT before entering contracts.

Analysis
The OIGH's review of the contract monitoring process during the audit period disclosed CSAHC did not verify 14 vendors business standing with the Maryland State Department of Assessments and Taxation (SDAT) prior to entering contractual agreements.
This occurred as CSAHC did not establish adequate procedures or oversight to ensure vendor standing was reviewed as part of the contract approval process. As a result, CSAHC is at risk of engaging with vendors that may not be in good standing with the State, which increases exposure to potential legal, financial, and reputational consequences.

Criteria
The Human Service Agreement Manual, section 2030.09-Verification of Legal Status states: *"A new respondent when not a governmental agency, must present acceptable verification of its legal status (corporation, partnership, fictitious name statement, etc.) prior to the advancement of funds."*

Recommendation 5:
The OIGH recommends that CSAHC:

a. **Implement procedures to verify the business standing of all vendors with the Maryland State Department of Assessments and Taxation (SDAT) prior to executing contracts**
b. **Establish ongoing oversight to ensure vendor standing is reviewed and documented for all new and renewed contracts, reducing the risk of engaging with vendors that are not in good standing**

Expenditure

Finding 6 – Inappropriate Charges to MDH Contract
CSAHC charged unrelated gift card purchases to MDH Contract.

Analysis
The OIGH reviewed CSAHC's expenditures and disclosed that two transactions in Fiscal Year 2023, totaling $4,500 for Disneyland and Southwest gift cards, were incorrectly charged to MDH Contract MH324OTH. These purchases are unrelated to the purpose of the MDH funding contract and, furthermore, the gift cards have not yet been used. This occurred as CSAHC did not have adequate controls or review procedures in place to ensure expenditures were properly aligned with contract requirements. As a result, there is a risk of misallocation of contract funds and potential noncompliance with MDH funding guidelines. See the schedule below for more details:

Core Service Agency of Harford County, Inc.
Schedule of Unallowed Expenditures

Fiscal Year	Contract Number	Finding Description	Disallowed Amount
2023	MH324OTH	Unallowed Exenditure	$3,500
2023	MH324OTH	Unallowed Exenditure	1,000
Total Cost Disallowances			**$4,500**

Criteria
HSAM, section 2150.09 Unallowable Costs states: *"The following items are costs generally considered to be unallowable for purposes of Departmental grant/contract support. The list is not exhaustive; omission does not constitute acceptance as an allowable cost. The Director may allow cost in any of these categories when it is in the public interest to do so; conversely, he/she may elect not to support funding of a cost not listed here, including those generally considered to be allowable under the previous section (Section 2150.08.01). Generally, Unallowable Costs are:*

> *a. Costs or expenses unrelated to the MDH (Maryland Department of Health) funded project refer to expenditures that do not directly support the objectives or activities outlined in the grant or contract agreement with MDH. These expenses are not eligible for reimbursement or funding under the MDH grant.*

t. Costs not adequately documented lack proper records or documentation to support their legitimacy and alignment with the project's objectives. Adequate documentation is essential for ensuring transparency, accountability, and compliance with funding requirements.

Recommendation 6
The OIGH recommends that CSAHC:

a. **Ensure all expenditures are properly reviewed and charged to the appropriate funding contracts. This includes establishing procedures to verify the purpose of each purchase aligns with contract requirements and maintaining documentation to support the allocation of funds. Ensure all transactions are accurately charged to the MDH contracts.**
b. **Periodically review expenditures to detect and correct any mischarges promptly**.

Cost disallowance for the finding above total $4,500 due to MDH.

Sub-Vendor

Finding 7 – Weakness in Sub-Vendor Controls
CSAHC did not always have adequate controls in place over its sub-vendors. **(Repeated Finding)**

Analysis
The OIGH reviewed CSAHC's sub-vendor controls during the audit period and disclosed that CSAHC did not always maintain adequate oversight of its sub-vendors. Specifically:

- One sub-vendor's MDH 440 was not provided in FY22, and another in FY21, although CSAHC furnished other supporting documentation resulting in no cost disallowances.
- Four sub-vendor MDH 440s provided in FY23 were not signed and dated as reviewed.
- One sub-vendor MDH 440 provided in FY22 was not signed and dated as reviewed.
- Three sub-vendor MDH 440s provided in FY21 were not signed and dated as reviewed.
- One sub-vendor audit report submitted in FY23 did not separately identify contract operations for the audit period.

These deficiencies occurred because CSAHC did not enforce consistent review and documentation practices for sub-vendor reporting requirements

Criteria
The Standards for Audit of Human Services Sub-Vendors Section III.C.1 states: *"Vendor responsibilities: The standards set forth in this document shall apply to all MDH human services vendors that award all or a portion of their funds received from MDH to sub-vendors to provide services. Vendors are to comply with these requirements and to communicate them to their sub-vendors. These standards shall also apply when a sub-vendor contracts with its own sub-vendor....*

a. *Audits of sub-vendors: Each vendor is responsible for conducting or contracting for regular audits of sub-vendors as set forth in sections D. (2) and E. (1 through 4) and consistent with the requirements of these standards.*

b. *Controls over sub-vendors: Each vendor is responsible for having adequate controls and monitoring procedures over its sub-vendors. These controls should include, but not be limited to, properly executed sub-vendor contracts, periodic progress and fiscal reports, review of audit reports and site visits to sub-vendors..."*
c. *Review of other audits: The vendor shall document annually that it has determined whether the sub-vendor has had an audit performed. (Even if DHMH does not require an audit, a sub-vendor may have had an audit performed to meet the requirements of another funding source.) If a vendor determines that a sub-vendor has had an audit performed, they shall document that they have requested and reviewed the audit report and any Standards for Audit of Human Services Sub-Vendors 4 management letter prepared in conjunction with it. The vendor should review the audit findings to determine if conditions exist that might prevent the sub-vendor from delivering services or fulfilling the terms and conditions of its contract with the vendor.*

The Standards for Audit of Human Services Sub-Vendors Section III.D.2 states: *"Cost reimbursement contracts:*

a. *Sub-vendors with cost-reimbursement contracts of any amount must submit the MDH 440 (Annual Report) to the vendor and must certify that the reported expenditures and revenues are true and correct. The vendor shall carefully review the sub-vendor's MDH 440 to determine that it is correct and reasonable, and that the sub-vendor stayed within budgetary limits....*
b. *Cost reimbursement contracts totaling over $100,000 must be audited by the vendor as set forth in paragraph E below."*

The Standards for Audit of Human Services Sub-Vendors Section III.E.3 states*: "Vendors responsibilities for sub-vendor audits:*

a. *(i) Selection of auditors: Auditors may be chosen from one of three sources: vendor's in-house staff, independent auditors under contract with the vendor, or independent auditors under contract with the sub-vendor....*
b. *(ii) Scope of Audit: Each audit of a sub-vendor should include the following areas: verification of the information reported on the MDH 440....*
c. *(iii) Content of audit report...Each report issued for a sub-vendor audit should provide sufficient schedules, forms, analysis, etc., to allow the reader to evaluate the results of the subcontracted service during each of the contract fiscal years (ending June 30) separately and isolated from the sub-vendor's total operations.; The audit report must provide a statement of revenues and expenditures that details total revenues and allowable expenditures and the amount due to the vendor for each contract that the sub-vendor has with the vendor....." The Standards for Audit of Human Services Sub-Vendors Section III.E.4 states: "Vendors review of sub-vendor audit: The vendor is responsible for reviewing the audit report and management letter after each sub-vendor audit is completed...The vendor should determine if: i. the sub-vendor utilized MDH funds in the appropriate manner as detailed in the approved budget....the vendor should retain audit reports and written documentation of follow-up results for five years after the due dates.....c. Vendor's requirement to submit a revised 440: If a sub-vendor audit reveals that adjustment to the financial information reported on the MDH 440 is necessary, it is the vendor's responsibility to submit a revision of its own 440 to the Division of Program Cost and Analysis (DPCA) within 60 days of the issuance of the final report..... if funds are due back to*

MDH, the vendor shall return the funds along with the revised 440 and an explanatory letter..."

Recommendation 7
The OIGH again recommends that CSAHC:

a. **Require all sub-vendors to submit complete and timely MDH 440 forms for each fiscal year.**
b. **Ensure all MDH 440s are reviewed, signed, and dated by CSAHC staff to document oversight.**
c. **Ensure that Sub-Vendor audits comply with section III.E.3 of MDH's Standard's for Audit of Human Service Sub-Vendor's. This includes providing a separate profit/loss activity schedule for each of the MDH grant's related Form 440, to allow for evaluation of the Form 440 audit results separately and isolated from the sub-vendor's total operations.**
d. **Implement periodic reviews to confirm documentation is complete, accurate, and retained to support compliance with MDH requirements.**

Equipment

Finding 8 – Improper Sales Tax Charged on MDH Contract
Sales tax totaling $90 was improperly charged to MDH Contract.

Analysis
The OIGH reviewed 19 equipment invoices and identified $90 in disallowed sales tax paid on three transactions. See the schedule below for more details:

Core Service Agency of Harford County, Inc.
Schedule of Sales Tax Cost Disallowances

Fiscal Year	Contract Number	Finding Description	Disallowed Amount
2021	MH324OTH	Sales Tax Charged	$30
2022	MH324OTH	Sales Tax Charged	49
2023	MH324OTH	Sales Tax Charged	11
Total Cost Disallowances			$90

Criteria
Comptroller of Maryland General Accounting Division Accounting Procedures Manual states: *"Since the State of Maryland is exempt from all forms of taxes, except excise tax on air flights, tax items should not be included in any invoice payments – with the following exceptions:*
Sales Tax may be included when paying rent for rooms (hotel, motel, etc.), since in such instances an employee is not making a direct purchase for his agency. For the same reason, the Baltimore City parking tax may be included. Oil companies remit the State Gasoline Tax directly to the Field

Enforcement Division of the State Comptroller's Office. Therefore, the inclusion of State Gasoline Tax items in payments to oil companies are required, but the Federal tax should be excluded; and, Purchases made from other than State funds (funds of patients, students, inmates, etc.)."

Recommendation 8:
The OIGH recommends that CSAHC:
Review all invoices carefully to ensure no sales tax is paid and charged to the state contracts.

Cost disallowance resulting from the finding above total $90 due to MDH.

Information Technology Security

Finding 9 – Safeguarding Sensitive Data
CSAHC does not obtain or review SOC 2 Type 2 Reports from external third-party providers.

Analysis
The OIGH's review of the information security system disclosed that Core Service Agency of Harford County did not obtain SOC 2 Type 2 report from the Accounting System, Also CSAHC did not review the annual SOC 2 Type 2 reports from their payroll services vendor to determine if sensitive data was being effectively safeguarded.

Criteria
The American Institute of Certified Public Accountants (AICPA) has released recommendations on service organization audits. Customers, such as CSAHC, may request an independent auditor's report known as a System and Organization Controls (SOC) for Service Organizations report. SOC reports come in a variety of formats, with differing scopes and levels of review and auditing. The results of the auditor's review of controls in place and tests of operating effectiveness for the period under review are included in one type of report, known as a SOC 2 Type 2 report, and could include an evaluation of system security, data availability, processing integrity, data confidentiality, and privacy.

Recommendation 9
The OIGH recommends that CSAHC:
a. Obtain the SOC 2 Type 2 Report from external third party for accounting system to confirm that sensitive data is being effectively safeguarded.
b. Review SOC 2 Type 2 Reports, document review of the SOC 2 Type 2 Reports and retain review for future reference. The review should contain conclusions, signed and dated by reviewer.

Finding 10 – Inadequate Segregation of Staff Duties
Lack of Adequate Separation of Duties in Accounting System.

Analysis

The OIGH reviewed CSAHC's access controls and authorization system during the audit period and disclosed that adequate separation of duties did not exist within the Accounting System. Specifically, the Finance Director, who also serves as the system administrator, is able to both enter data and post general ledger entries for payroll, fringe, and corporate credit card transactions without independent review. In addition, the Staff Accountant, with access permissions equal to the Finance Director, can enter accounts payable for transactions and process payments; however, CSAHC does not document who reviews or approves the Staff Accountant's entries. These conditions occurred because CSAHC did not implement proper access restrictions or establish oversight procedures to ensure segregation of responsibilities within critical financial processes. As a result, CSAHC is exposed to increased risk of errors, unauthorized transactions, and potential misappropriation of funds due to insufficient internal controls.

Criteria

The State of Maryland Information Technology Security Manual version 1.2, section Access Control Requirements states: *"Logical access controls are the system-based mechanisms used to designate whom or what is to have access to a specific system resource and the type of transactions and functions that are permitted. They include controls that:*

- *Manage user accounts, including activation, deactivation, changes and audits.*
- *Restrict users to authorized transactions and functions.*
- *Limit network access and public access to the system.*
- *Enforce assigned authorizations that control system access and the flow of information within the system and between interconnected systems.*
- *Identify, document, and approve specific user actions that can be performed without identification or authentication.*
- *Enforce separation of duties.*
- *Enforce technical limitations which can prevent unauthorized access to system resources, etc."*

Recommendation 10

The OIGH recommends that CSAHC:

a. Require the Finance Director and Staff Accountant to perform a cross-review of each other's entries, with both documenting the review and approval.

b. Assign CSAHC's Executive Director or another member of senior management outside the finance function to periodically review high-risk transactions, such as payroll, fringe, and corporate credit card charges.

Other Matters - MDH Reconciliations

Other Matter 1 – MDH-DGLHD did not timely reconcile MDH Form 440s submitted from CSAHC

MDH-DGLHD did not complete the required reconciliations of MDH Form 440s, resulting in $1,020,177 in unspent funds pending resolution.

Analysis

The OIGH's review of CSAHC's MDH Form 440s disclosed that the MDH Division of Grant and Local Health Department (MDH-DGLHD) did not complete all required reconciliations for the audit period, despite CSAHC's timely submission of annual reports and multiple reminders. As a result, $1,020,177 in unspent funds remains pending resolution. MDH-DGLHD is currently in the process of finalizing reconciliation efforts. Accordingly, potential disallowances cannot be finalized as DGLHD retains responsibility for unspent amounts with CSAHC. Therefore, no cost disallowances are associated with this finding. See the schedule below for more detail:

Core Service Agency of Harford County, Inc. Schedule of Unreconciled MDH 440s				
Fiscal Year	**Contract Number**	**Contract Description**	**Finding Description**	**Unspent (Unfunded) Amount ***
2021	MH324OTH - Rollove	Rollover	No Initial Reconciliation Completed by MDH resulting in UnSpent Funds	$ 462
2021	BH119CRS	School Intervention Specialist	No Initial Reconciliation Completed by MDH resulting in UnSpent Funds	30,602
2021	B119SUP	Adolescent Clubhouse Program	No Initial Reconciliation Completed by MDH resulting in UnSpent Funds	85,318
Total FY 2021 Amount				**$ 116,382**
2022	BH038MAM	Covid Testing & Mitigation	No Initial Reconciliation Completed by MDH resulting in UnSpent Funds	23,179
Total FY 2022 Amount				**$ 23,179**
2023	BH001SCS	Youth Expansion COVID Funding	No Initial Reconciliation Completed by MDH resulting in UnSpent Funds	188,700
2023	MH367OTH	PATH	No Initial Reconciliation Completed by MDH resulting in UnSpent Funds	3,588
2023	MH354CSA - POS	POS	No Initial Reconciliation Completed by MDH resulting in UnSpent Funds	644,520
2023	MH355OTH	Continuum of Care	No Initial Reconciliation Completed by MDH resulting in UnSpent Funds	(9,004)
2023	BH119CRS	School Intervention Specialist	No Initial Reconciliation Completed by MDH resulting in UnSpent Funds	10,207
2023	MH324OTH	Admin	No Initial Reconciliation Completed by MDH resulting in UnSpent Funds	42,407
2023	BH038MAM	Covid Testing & Mitigation	No Initial Reconciliation Completed by MDH resulting in UnSpent Funds	195
2023	BH028MAR	BH Crisis Services/Walk-In Urent Care	No Initial Reconciliation Completed by MDH resulting in UnSpent Funds	3
Total FY 2023 Amount				**$ 880,616**
Total UnSpent Amount*				**$ 1,020,177**

**The unspent or (unfunded) amounts identified above do not reflect the BHA-approved rollover amount that CSAHC was authorized to retain for use in the subsequent fiscal year*

Criteria

Human Services Agreement Manual (HSAM) 2190.01 Background states: "*Reconciliation is a fiscal resolution of the grant/contract pending audit and settlement, usually conducted at the termination of the grant/contract period or at the end of each fiscal year in the case of a multi-year agreement. The reconciliation operation is an arithmetic check of expenditures and incomes, a determination of net balances and disposition of those balances. Reconciliation is based upon reported expenditures and incomes, subject to correction by the Division of Program Cost and Analysis".*

HSAM 2120.04 Annual Report states: "*A Vendor's Annual Report (DHMH 440) of receipts and expenditures for the budget period must be submitted to the Division of Program Cost and Analysis by August 31, covering the preceding fiscal year. Vendors with multi-year contracts must submit a DHMH 440 for each year of the contract. (Day Care Programs for the Elderly submit the annual report DHMH 2026 by September 30.) Failure to submit this report within the specified time will result in funds being withheld until the reports are filed and reconciliation is complete. This report need not be an audited document. So-called "preliminary" reports will be processed as final*

reports; therefore, the vendor must not file a report which is not to be relied upon, merely to comply with the filing deadline".

Since the finding's root cause originated with MDH-DGLHD, no recommendation is directed to CSAHC.

Other Matter 2 – MDH Form 440 reconciliations contained errors
MDH-DGLHD incorrectly reconciled CSAHC's MDH Form 440s.

Analysis
The OIGH's review of MDH Form 440s and CSAHC's general ledger (GL) for the audit period revealed that there was an error in the reconciled CSAHC's MDH Form 440s. MDH double counted expenditures reported leading to max funding of the award amount instead of asking the provider to return overfunding amount. (MH324OTH). MDH-DGLHD is currently in the process of revising these reconciliations. Accordingly, potential disallowances cannot be finalized as DGLHD retains responsibility for unspent amounts with CSAHC. Therefore, no cost disallowances are associated with this finding.
See the schedule below for more details:

Core Service Agency of Harford County, Inc. Schedule of Unreconciled MDH 440s				
Fiscal Year	**Contract Number**	**Contract Description**	**Finding Description**	**Errors from Initial MDH 440 Reconciliations**
2021	MH324OTH	Admin & POS	Error made by MDH in the initial reconciliations	$ 588,121
Total Amount				**$ 588,121**

Criteria
HSAM 20601.01 General states: "*The DHMH human service funding system is generally one of contributory funding to support health related services which derive income from user fees, insurance payments, charitable contributions and endowments, other government programs and other third-party incomes. DHMH FUNDING IS GENERALLY NOT A FULL-COST REIMBURSEMENT SYSTEM. Should a program administration wish to support all costs (or all costs less those covered by a specified type of other income) the funding agreement should contain an explicit provision to that effect. In the absence of an explicit disclaimer, the fundamental principle is that Departmental monies are spent last and recovered first".*

Since the finding's root cause originated with MDH-DGLHD, no recommendation is directed to CSAHC

Appendix 1: Provider Responses

Office on Mental Health
Core Service Agency of Harford County, Inc.

2231 Conowingo Road Suite A
Bel Air, MD 21015
P: 410.803.8726
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www.harfordmentalhealth.org

Corrective Action Plan in Response to MDH Audit FY 2021-FY 2023

Finding 1: MDH Form 440 and General Ledger Variances—Concur with exception

Action Plan: We concur with the finding. However, we do not agree with the amount due back to MDH. The $16,055 in MH324OTH was recorded in our FY 2024 rollover forms. Additional information was emailed to the OIG on 9/18/2025, and the OIG plans to update the amount on the final audit report pertaining to the FY 2023 MH324OTH Variance. Moving forward, the OMH/CSA will adjust in the correct year and do not allow changes by the sub-vendor after the due date.

Finding 2: Administrative Fees incorrectly posted to General Ledger--Concur

Action Plan: This was an error and has been corrected.

Finding 3: CPA Reports--Concur

Action Plan: Our independent auditors have been made aware of this finding, and we are requesting they meet the criteria listed in the HSAM.

Finding 4: Deficiencies in Procurement Practices and Policies—Concur

Action Plan: We are working with our legal team to update the Procurement Policy to include purchases outside of equipment with relevant thresholds, guidance on emergency and sole source procurement, and creating forms to coincide with sole source procurement. Additionally, the policy will include terms which require regular review to ensure the policy is relevant. Once the drafts have been completed, the Board of Director will review. It is anticipated that the review, approval, and implementation of an updated procurement policy will occur by the end of fiscal year 2026. Draft policy was emailed to the OIG on 9/26/2025.

Finding 5: Lack of Vendor Business Verification--Concur

Action Plan: Concur, this has been resolved.

Finding 6: Inappropriate charges to MDH Contract—Concur

Action Plan: These purchases will no longer occur unless they are made with other funding that allows these expenses. If this is to occur, the purchases will be recorded with those funding streams and not MDH contracts. Expenditures will be reviewed to detect and correct any mischarges promptly.

Finding 7: Weakness in Sub-Vendor Controls—Concur

Action Plan: This has been resolved. There was a situation where a 440 wasn't submitted by a vendor as the CFO left, never received it. Now, all 440s are uploaded into SharePoint and they are being signed & dated by the Finance Director via PDF. All FY 2025 received, reviewed and signed. The agency implemented review form for the sub-vendor independent audit to complete a more in-depth review.

Finding 8: Improper Sales Tax Charged on MDH Contract—Concur

Action Plan: The agency has been working to create accounts for purchases where tax exempt status is accepted and applied to purchases. All leadership have been made aware of this finding and have been advised about future purchases.

Finding 9: Safeguarding Sensitive Data—Concur

Action Plan: The agency is in the process of obtaining the SOC 2 Type 2 report for the accounting system. The SOC 2 Type 2 report for the payroll system has been obtained and reviewed. The agency has drafted a document to utilize when reviewing these reports. Reports will be obtained, reviewed, and documented on an annual basis.

Finding 10: Inadequate Segregation of Staff Duties—Concur

Action Plan: Corporate credit card and all bank accounts are sent to Board Treasurer for review, approval, and date. It was being done, but there was no signature by the Treasurer. This piece has been resolved. The Executive Director continues to review all credit card and bank accounts on monthly basis. The Finance Director reconciles bank activity daily basis. The Executive Director will continue to review all high-risk transactions.

Appendix 2: Auditor Comments to Provider Responses

Finding Number	Brief Decsription	CSAHC's Responses
1	MDH 440 and General Ledger Variances	We concur with the finding. However, we do not agree with the amount due back to MDH. The $16,055 in MH324OTH was recorded in our FY 2024 rollover forms. Additional information was emailed to the OIG on 9/18/2025, and the OIG plans to update the amount on the final audit report pertaining to the FY 2023 MH324OTH Variance. Moving forward, the OMH/CSA will adjust in the correct year and do not allow changes by the sub-vendor after the due date.
Auditor Comments: Upon review of the explanation and additional supporting documentation submitted via email, the OIGH concurs with the justification provided. Accordingly, the additional expenditures for MH324OTH are accepted, resulting in a revised variances of $7,492, as opposed to the originally reported $16,055. This adjustment has been reflected in Finding 1 above.		

Audit Team

Chau Nguyen, CPA
Acting Chief Auditor

Isis Powell
Audit Supervisor

Plennis Randall
Staff Auditor

Audit Job Number: 332