

Audit Report

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**Department of Health and Mental Hygiene  
Deer's Head Center**

May 2011

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

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**Karl S. Aro**  
Executive Director

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

**Bruce A. Myers, CPA**  
Legislative Auditor

May 26, 2011

Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee  
Senator James C. Rosapepe, Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Deer's Head Center (DHC) of the Department of Health and Mental Hygiene (DHMH) for the period beginning January 14, 2008 and ending December 19, 2010. DHC provides chronic care and treatment to patients requiring a hospital-level rehabilitation program, long-term nursing home care, and inpatient and outpatient kidney dialysis services.

Our audit disclosed that DHC did not always follow State Procurement Regulations. For example, DHC procured certain goods and services without soliciting competitive bids and executing written contracts, as required. Additionally, DHC did not review payments made to employees appearing on multiple State payrolls to ensure there were no payments for overlapping hours.

DHMH's response to this audit, on behalf of DHC, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by DHC.

Respectfully submitted,

Bruce A. Myers, CPA  
Legislative Auditor



## **Background Information**

### **Agency Responsibilities**

The Deer's Head Center (DHC), which is located in Salisbury, Maryland, provides chronic care and treatment to patients requiring a hospital-level rehabilitation program, long-term nursing home care, and inpatient and outpatient kidney dialysis services. During fiscal year 2010, DHC had a licensed capacity of 146 inpatients, a budgeted average daily population of 72 inpatients, and an actual average daily population of 75 inpatients; DHC's dialysis unit also provided 14,786 dialysis treatments to 158 patients. DHC is accredited by the Joint Commission on Accreditation of Healthcare Organizations. According to the State's records, during fiscal year 2010, DHC expenditures totaled approximately \$22.5 million

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

Our audit included a review to determine the status of the seven findings contained in our preceding audit report on DHC dated July 14, 2008. We determined that DHC satisfactorily addressed six of these findings. The remaining finding is repeated in this report.

## **Findings and Recommendations**

### **Procurement of Goods and Services**

#### **Finding 1**

**DHC did not always follow State Procurement Regulations when procuring goods and services.**

#### **Analysis**

DHC frequently purchased certain supplies and services without obtaining competitive bids and without entering into formal contracts. Our test of 20 disbursements totaling approximately \$679,000 initially disclosed deficiencies regarding payments to three vendors totaling \$42,000. Our expanded test work related to these three vendors disclosed the following conditions:

- Although DHC's contract with one vendor for nursing staff services expired in April 2008, DHC continued to use the services of this vendor, at the same rates, until March 2009 without entering into a formal contract. During the

period from May 2008 to March 2009, payments made to this vendor totaled approximately \$89,730.

- DHC obtained the services of another vendor that provided nursing staff services without obtaining competitive bids and entering into a formal contract, even though such services were offered under a Statewide contract. Additionally, the rates charged by this vendor exceeded the rates charged by the vendor under the statewide contract. For example, the weekend rate charged by the vendor providing services to DHC was \$52 per hour while the rate charged for the same services by the vendor under the statewide contract was \$42 per hour. During fiscal year 2010, DHC made payments to the vendor totaling approximately \$237,100.
- DHC frequently purchased medical supplies from one vendor without obtaining competitive bids, entering into a formal contract, and obtaining the required approval of the Department of General Services. Although many of the individual invoices were below \$5,000 (the level requiring bids), payments to this vendor for these medical supplies totaled approximately \$53,900 during fiscal year 2010.

The State Procurement Regulations require that bids be solicited for all procurements exceeding \$5,000 and that at least two responsive bids be obtained. Additionally, procurements exceeding \$5,000 must have written contracts, and commodities purchases exceeding \$25,000 must be submitted to the Department of General Services for review and approval. Similar conditions were commented upon in our preceding audit report.

#### **Recommendation 1**

**We recommend that DHC comply with the requirements of the State Procurement Regulations. Specifically, we recommend that DHC**

- a. use Statewide contracts, when applicable, or obtain competitive bids and enter into written contracts for procurements exceeding \$5,000 (repeat); and**
- b. submit commodities purchases exceeding \$25,000 to the Department of General Services for review and approval (repeat).**

## Payroll - Dual Employment

### **Finding 2**

**Procedures and controls to investigate payments made to DHC employees appearing on multiple State payrolls need improvement.**

#### **Analysis**

Although DHC received quarterly reports from the Comptroller of Maryland's Central Payroll Bureau (CPB) of DHC employees that appeared on multiple State payrolls (for example, worked for both DHC and another State agency), DHC did not investigate employees appearing on the reports to ensure the propriety of the payroll payments. During calendar year 2010, a total of 13 DHC employees appeared on CPB's multiple payroll reports, and payments made by DHC and other State agencies to these employees during the overlapping pay periods totaled approximately \$197,700. While our limited test of these payrolls disclosed no overlapping hours, without a thorough review, DHC cannot ensure these payments are proper. According to the State's records, during fiscal year 2010, DHC payroll expenditures totaled approximately \$14.8 million.

CPB issues quarterly reports to State agencies that identify employees appearing on multiple State payrolls. CPB has directed State agencies to investigate all employees appearing on the reports to ensure that they were not claiming hours for multiple jobs for the same time.

#### **Recommendation 2**

**We recommend that DHC**

- a. review the quarterly CPB reports and properly investigate all employees appearing on multiple State payrolls, including the aforementioned 13 employees;**
- b. retain documentation of the investigations performed; and**
- c. take appropriate corrective action (such as recovering overpayments made to employees) when overlapping hours are identified.**

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

We have audited the Deer's Head Center (DHC) of the Department of Health and Mental Hygiene (DHMH) for the period beginning January 14, 2008 and ending December 19, 2010. 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 DHC's financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings contained in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. The areas addressed by the audit included purchases and disbursements, cash receipts, payroll, and accounts receivable. Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observations of DHC's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

DHC provides certain support services (billing and collection for kidney dialysis services) to the DHMH – Western Maryland Center. These support services are included within the scope of our audit of DHC.

DHC's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

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

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect DHC's ability to maintain reliable financial records, operate effectively and efficiently,

and/or comply with applicable laws, rules, and regulations. Our report also includes a finding regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to DHC that did not warrant inclusion in this report.

The response from DHMH, on behalf of DHC, to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise DHMH regarding the results of our review of its response.

APPENDIX



STATE OF MARYLAND

DHMH

Maryland Department of Health and Mental Hygiene

201 W. Preston Street • Baltimore, Maryland 21201

Martin O'Malley, Governor – Anthony G. Brown, Lt. Governor – Joshua M. Sharfstein, M.D., Secretary

May 25, 2011

Bruce Myers, CPA  
Legislative Auditor  
Office of Legislative Audits  
301 West Preston Street  
Baltimore, MD 21201

Dear Mr. Myers:

Thank you for your letter regarding the draft audit report of the Deer's Head Hospital Center for the period beginning January 14, 2008 and ending December 19, 2010. Enclosed you will find the Department's response and plan of correction that addresses each audit recommendation. I will work with the appropriate Directors of Administration, Program Directors, and Deputy Secretary to promptly address all audit exceptions. In addition, the Department's Office of the Inspector General (OIG), Division of Internal Audits, will follow-up on the recommendations to ensure compliance.

If you have any questions or require additional information, please do not hesitate to contact me at 410-767-4639 or Thomas V. Russell, Inspector General, at 410-767-5862.

Sincerely,

Joshua M. Sharfstein, M.D.  
Secretary

Enclosure

cc: Frances B. Phillips, R.N., M.H.A., Deputy Secretary for Public Health Services  
Russell W. Moy, M.D., M.P.H., Director, FHA, DHMH  
Thomas V. Russell, Inspector General, DHMH  
Ellwood L. Hall Jr., Assistant Inspector General, DHMH  
Sandy Smith, Director, Deer's Head Hospital Center

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# Findings and Recommendations

## **Finding 1**

**DHC did not always follow State Procurement Regulations when procuring goods and services.**

### **Recommendation 1:**

We recommend that DHC comply with the requirements of the State Procurement Regulations. Specifically, we recommend that DHC

- a. use Statewide contracts, when applicable, or obtain competitive bids and enter into written contracts for procurements exceeding \$5,000 (repeat); and
- b. Submit commodities purchases exceeding \$25,000 to the Department of General Services for review and approval (repeat).

### **Administration's Response:**

DHHC concurs with the recommendations to use Statewide contracts, when applicable, or obtain competitive bids and enter into written contracts for procurements exceeding \$5,000, and submit commodities purchases exceeding \$25,000 to the Department of General Services for review and approval.

- a. Concerning the need to obtain competitive bids for nursing staff services, in fiscal year 2010 DHHC did have in place an agency blanket purchase order for nursing staff services. However, due to an increase in staff vacancy rates in our nursing home, there was an increased demand for nurses that couldn't be filled internally. DHHC made every attempt to contract with the four vendors listed on our agency nurse contract, however, two of the agencies on the blanket purchase order were unable to provide staffing, subsequently resulting in the need to procure agency staffing services outside the agency blanket purchase order which resulted in the finding noted above. The two vendors in question were removed from the contract, and a new contract was awarded to four additional nursing agencies at the March 23, 2011 Board of Public Works meeting. Future agency nursing expenditures will be monitored to ensure compliance with procurement guidelines.
- b. Regarding commodity purchases exceeding \$25,000, prior to fiscal year 2010 there was no process in place at DHHC to identify procurements in need of an agency contract. Therefore, a system to identify items in need of an agency blanket purchase order was created, and as of March 25, 2011, 8 requisitions at various stages of the bid process were at DGS, including the exception above, covering a total of 123 frequently purchased commodities. The requisition for the exception noted above was submitted to DGS on January 31, 2011, prior to the time of OLA procurement testing.

**Finding 2**

**Procedures and controls to investigate payments made to DHC employees appearing on multiple State payrolls need improvement.**

**Recommendation 2**

We recommend that DHC

- a. review the quarterly CPB reports and properly investigate all employees appearing on multiple State payrolls, including the aforementioned 13 employees;
- b. retain documentation of the investigations performed; and
- c. take appropriate corrective action (such as recovering overpayments made to employees) when overlapping hours are identified.

**Administration's Response:**

DHHC concurs with the recommendations and will review the quarterly CPB reports and properly investigate all employees appearing on multiple State payrolls, while retaining documentation of the investigations performed and take appropriate corrective action (such as recovering overpayments made to employees) when overlapping hours are identified.

- a. The Central Payroll Bureau was contacted in early March of 2011 in order to obtain the specifics of the report, and the Personnel Department will be responsible for reviewing the report and contacting other agencies to ensure no overlapping of time worked exist. The report for the quarter ending 3/31/11 was reviewed and investigated with no exceptions noted. The old reports covering the 13 employees will also be investigated for compliance.
- b. The reviews will be documented and maintained for future reference.
- c. DHHC will take appropriate corrective action (such as recovering overpayments made to employees) when overlapping hours are identified.

AUDIT TEAM

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