

Audit Report

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**Department of Health and Mental Hygiene  
Clifton T. Perkins Hospital Center**

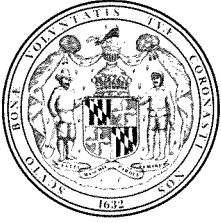
December 2012

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**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

Karl S. Aro  
Executive Director

December 6, 2012

Thomas J. Barnickel III, CPA  
Acting Legislative Auditor

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

Ladies and Gentlemen:

We have audited the Clifton T. Perkins Hospital Center of the Department of Health and Mental Hygiene (DHMH) for the period beginning August 31, 2009 and ending February 16, 2012. The Center provides comprehensive psychiatric evaluation and treatment services to individuals in a maximum security environment.

Our audit disclosed that ten employees received overtime compensation totaling in excess of \$100,000 during fiscal year 2011, even though the employees were ineligible for such compensation based on their employment classifications. In addition, the Center did not adequately verify the propriety of billings for pharmacy and laboratory services. Our audit also disclosed that certain food purchases for the Center's dietary operations were procured without using available statewide contracts as required by State procurement regulations. Finally, we noted internal control deficiencies over the processing of cash receipts.

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

Respectfully submitted,

A handwritten signature in black ink that reads "Thomas J. Barnickel III".

Thomas J. Barnickel III, CPA  
Acting Legislative Auditor



## Table of Contents

<b>Background Information</b>	4
Agency Responsibilities	4
Status of Findings From Preceding Audit Report	4
<b>Findings and Recommendations</b>	5
<b>Payroll</b>	
Finding 1 – Overtime Compensation Was Paid to Ineligible Employees	5
<b>Contract Monitoring</b>	
*     Finding 2 – The Center Did Not Adequately Verify the Propriety of Costs Charged for Pharmacy and Laboratory Testing Services	6
<b>Procurement</b>	
Finding 3 – The Center Did Not Comply With State Procurement Regulations When Purchasing Food for Its Dietary Operations	7
<b>Cash Receipts</b>	
Finding 4 – Internal Controls Over Cash Receipts Were Inadequate	8
<b>Audit Scope, Objectives, and Methodology</b>	9
<b>Agency Response</b>	Appendix

\* Denotes item repeated in full or part from the preceding audit report

## **Background Information**

### **Agency Responsibilities**

The Clifton T. Perkins Hospital Center, located in Jessup, Maryland, provides comprehensive psychiatric evaluation and treatment services to individuals in a maximum security environment. The Center has a licensed capacity of 250 resident patients and, during fiscal year 2011, had a budgeted average daily population of 232 and an actual average daily population of 220 residents. The Center is accredited by the Joint Commission (formerly the Joint Commission on Accreditation of Healthcare Organizations), which evaluates and monitors health care organizations to ensure the highest quality of care is provided. According to the State's records, total Center expenditures were approximately \$48.3 million during fiscal year 2011.

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

Our audit included a review to determine the status of the five findings contained in our preceding audit report dated June 9, 2010. We determined that the Center satisfactorily addressed four of these findings. The remaining finding is repeated in this report.

# Findings and Recommendations

## Payroll

### **Finding 1**

**Certain employees were paid overtime compensation, even though the employees were ineligible to receive such compensation based on their employment classifications.**

### **Analysis**

Certain employees received monetary payments for overtime, even though the employees were ineligible to receive such compensation based on their employment classifications. We tested overtime paid to 20 employees who received significant amounts of overtime payments during calendar year 2011. For the pay periods selected for testing, these employees received overtime payments of \$26,427; however, 10 employees (in two employment classifications) with overtime earnings totaling \$10,644 were ineligible to receive overtime. According to the Center's payroll records, the aforementioned 10 ineligible employees received overtime compensation totaling \$115,381 during calendar year 2011.

The Department of Budget and Management (DBM) determines which employment classifications are eligible to earn overtime compensation. According to State regulations, monetary overtime compensation generally may not be paid to executive, administrative, or professional employees, who instead may receive compensatory leave time for overtime hours worked. According to the State's records, during calendar year 2011, the Center paid approximately \$4 million in employee overtime. Subsequent to our bringing this matter to the attention of the Center, the Center requested, and DBM approved, one of the aforementioned employment classifications (which addressed 9 of the aforementioned 10 employees) as eligible for overtime beginning March 1, 2012.

### **Recommendation 1**

**We recommend that the Center**

- a. ensure that overtime is only paid to eligible employees, and**
- b. consult with the Office of the Attorney General to determine whether recovery of the overtime compensation paid to employees when they were ineligible should be pursued.**

## Contract Monitoring

### **Finding 2**

**The Center did not adequately verify the propriety of billings for pharmacy and laboratory testing services.**

### **Analysis**

The Center did not adequately verify the costs charged for pharmacy services provided by a State university and certain laboratory testing services. Specifically our review disclosed the following conditions:

- The Center had a formal agreement with a State university to provide pharmacy personnel and, under the agreement's terms, the payments to the university were to be based on personnel costs and a six percent administrative fee. According to the agreement, the State university was required to submit information to support billed charges for salaries, fringe benefits, and administrative costs. However, our test of seven pharmacy service payments during the audit period totaling \$838,728 disclosed that the Center paid the university either without verifying the university's invoiced salary costs or without documenting its verification. A similar condition was noted during our preceding audit.

Specifically, our test disclosed one invoice totaling \$116,764 was not supported by required documentation, such as check registers or timesheets (to document salaries and hours worked, respectively) and three other invoices totaling \$333,662 were not supported by timesheets. Additionally, although the remaining three invoices were accompanied by the required check registers and timesheets, the Center had not documented its review of the support submitted and the propriety of reimbursed labor costs (salaries). The agreement also included a provision which allowed the Center to audit the university's records; however, the Center had not performed any audits related to these billed amounts. According to the Center's records, during fiscal years 2011 and 2012 (through February 2012), payments to the university totaled approximately \$840,000.

- Vendor invoices for laboratory testing services were reviewed by the Center's medical staff to ensure that the various services billed were actually performed; however, these reviews did not include a verification that the rates billed agreed to the rates specified in the related contract. Our review of 20 lab test charges totaling \$1,825 from four invoices (that contained approximately \$43,000 in billed charges), disclosed that for 8 lab test charges the vendor overcharged the Center by \$627 or 52 percent. Our review also

disclosed that, for three other lab tests totaling \$221, the specific tests performed and the applicable rates charged were not established in the contract. According to State records, during the period from September 2009 through December 2011, the Center paid this vendor approximately \$215,000 for testing services.

## **Recommendation 2**

### **We recommend that the Center**

- a. obtain and review pharmacy service cost documentation, such as check registers and time sheets, before paying amounts billed (repeat);**
- b. periodically conduct audits of the university billings, as deemed necessary, to ensure compliance with the requirements of the related agreement;**
- c. ensure that the laboratory testing service contract is modified to include all tests and related rates and that a process is established to verify the rates charged are in accordance with the contract; and**
- d. pursue recovery of any overpayments, including the aforementioned laboratory tests overcharges.**

## **Procurement**

### **Finding 3**

**The Center did not comply with State procurement regulations when purchasing dietary items.**

### **Analysis**

The Center purchased dietary items directly from one vendor without considering availability and pricing from Department of General Services approved statewide contracts as required under State procurement regulations. During our test of expenditures, we noted a number of purchases from one vendor with whom the Center did not have a contract. Upon inquiry, we were advised that this vendor was routinely used for individual small purchases without obtaining competitive bids. Consequently, there is lack of assurance that the State obtained these supplies at the lowest cost. For example, our review of items purchased totaling \$1,333, disclosed that the same items and quantities could have been purchased from a statewide vendor for \$804, resulting in a savings of \$529 or 40 percent.

State procurement regulations generally specify that statewide contracts be used when available for commodity purchases. In the absence of a statewide contract, a formal written procurement process (such as competitive sealed bidding) is required for procurements that are reasonably expected to exceed \$5,000, and

procurements exceeding \$5,000 must also have written contracts. The Center made purchases totaling approximately \$330,000 from this vendor during the period from September 2009 to December 2011.

**Recommendation 3**

**We recommend that the Center comply with State procurement regulations.**

**Cash Receipts**

**Finding 4**

**Internal controls over cash receipts were inadequate.**

**Analysis**

The Center had not established adequate internal controls over cash receipts, which, according to State accounting records, totaled approximately \$482,000 during fiscal year 2011. Specifically, the employee who was responsible for performing the verification that all collections were deposited had routine access to the collections and, consequently, was not independent. Furthermore, our test of certain collections disclosed a number of instances in which there was no documentation that the deposits had been verified to the initial receipt document. We verified that all collections tested were deposited by the Center.

The Comptroller of Maryland's *Accounting Procedures Manual* requires that receipts recorded on initial source documents be traced to deposit by an employee independent of the cash receipts process.

**Recommendation 4**

**We recommend that the Center perform documented deposit verifications of collections from the initial receipt document to deposit by an employee independent of the related collections. We advised the Center on accomplishing the necessary separation of duties using existing personnel.**

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

We have audited the Clifton T. Perkins Hospital Center of the Department of Health and Mental Hygiene for the period beginning August 31, 2009 and ending February 16, 2012. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine the Center's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. 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 disbursements for the Center's operating expenditures, as well as payroll, cash receipts, working fund, and pharmaceutical and equipment inventories. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Center'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.

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

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

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

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

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

APPENDIX



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

December 05, 2012

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

Dear Mr. Barnickel:

Thank you for your letter regarding the draft audit report for the Department of Health and Mental Hygiene – Clifton T. Perkins Hospital Center. Enclosed you will find the Department's response and plan of correction that addresses each audit recommendation. I will work with the Facility CEO and Deputy Secretary to promptly address the audit exceptions. In addition, the Office of Inspector General's 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 Thomas V. Russell of my staff at (410) 767-5862.

Sincerely,

Joshua M. Sharfstein, M.D.  
Secretary

Enclosure

cc: Gayle Jordan-Randolph, M.D., Deputy Secretary for Behavioral Health and Disabilities, DHMH  
Valerie A. Roddy, Chief of Staff, Behavioral Health and Disabilities, DHMH  
Brian Hepburn, M.D., Executive Director, Mental Hygiene Administration, DHMH  
David Helsel, M.D., CEO, Clifton T. Perkins Hospital Center, DHMH  
Thomas Lewis, COO, Clifton T. Perkins Hospital Center, DHMH  
Patrick D. Dooley, Chief of Staff, Office of the Secretary, DHMH  
Thomas V. Russell, Inspector General, DHMH  
Ellwood L. Hall, Jr., Assistant Inspector General, DHMH

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The Administration's Response to the Audit of the Clifton T. Perkins Hospital Center  
of the Department of Health and Mental Hygiene  
for the Period Beginning August 31, 2009 and Ending February 16, 2012.

**Finding 1**

**Certain employees were paid overtime compensation, even though the employees were ineligible to receive such compensation based on their employment classifications.**

**Recommendation 1**

**We recommend that the Center**

- a. ensure that overtime is only paid to eligible employees, and**
- b. consult with the Office of the Attorney General to determine whether recovery of the overtime compensation paid to employees when they were ineligible should be pursued.**

**Administration's Response:**

- a. The Administration concurs with this recommendation. Since the time of the audit exit conference, the facility has received approval from DBM to pay overtime to the remaining classification mentioned in the report. This approval is effective July 1, 2012.
- b. The Administration concurs with the recommendation to consult with the Office of the Attorney General to determine whether recovery of the overtime compensation paid to employees in question should be pursued. It should be noted that the Department of Budget and Management has determined that these classifications should be overtime eligible.

**Finding 2**

**The Center did not adequately verify the propriety of billings for pharmacy and laboratory testing services.**

**Recommendation 2**

**We recommend that the Center**

- a. obtain and review pharmacy service cost documentation, such as check registers and time sheets, before paying amounts billed (repeat);**
- b. periodically conduct audits of the university billings, as deemed necessary, to ensure compliance with the requirements of the related agreement;**
- c. ensure that the laboratory testing service contract is modified to include all tests and related rates and that a process is established to verify the rates charged are in accordance with the contract; and**
- d. pursue recovery of any overpayments, including the aforementioned laboratory tests overcharges.**

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

- a. The Administration concurs with this recommendation. CTPHC agrees to obtain and review pharmacy service cost documentation, such as check registers and time sheets, prior to paying pharmacy service invoices. This review previously was assigned to the Clinical Director's office. This review will now be conducted by staff in the fiscal office. Fiscal office staff have a greater degree of familiarity with the reviews that are required. This review will begin with the first quarter FY 2013 invoice.
- b. The Administration concurs with this recommendation. CTPHC agrees to periodically conduct audits of the university billings, as deemed necessary, to ensure compliance with the requirements of the related agreement.
- c. The Administration concurs with this recommendation. The current contract does contain practically all tests and rates, but CTPHC is negotiating to have additional tests included as part of the original contract at reduced rates. Reviews of the laboratory services invoices have demonstrated that the contracted services (those included on the bid sheet) have consistently been billed and paid correctly, but that there have been problems at times with the rarely used tests. A review process has been put in place to review the rates charged for these services.
- d. The Administration concurs with this recommendation. Further review of the overpaid invoices noted in the report seemed to indicate that our physicians ordered a more comprehensive, expensive test (with the same test description) than that noted in the report. Adjustments in procedures have now been made so that the more comprehensive, expensive tests are only ordered when needed. We agree to pursue recovery of any overpayments made to the vendor that can be verified.

### **Finding 3**

**The Center did not comply with State procurement regulations when purchasing dietary items.**

### **Recommendation 3**

**We recommend that the Center comply with State procurement regulations.**

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

The Administration concurs with the recommendation and will comply with State procurement regulations. Many of the items previously purchased from the vendor in question are now available through State contracts with other vendors.

### **Finding 4**

**Internal controls over cash receipts were inadequate.**

### **Recommendation 4**

**We recommend that the Center perform documented deposit verifications of collections from the initial receipt document to deposit by an employee independent**

**of the related collections. We advised the Center on accomplishing the necessary separation of duties using existing personnel.**

**Administration's Response:**

The Administration concurs with the recommendation. Although two fiscal accounts clerks are the primary receivers of cash receipts, it is possible due to the small size of the office for the fiscal accounts clerk supervisor to need to occasionally take cash receipts. This is the person who normally performs the verification of recorded collections to subsequent deposit, with the sign off of the deputy CFO. We propose that this process continue with the exception that the deputy CFO performs the verification on the days that the fiscal accounts supervisor receives payments. The verifications are being done using the initial records of collections and are being documented. These procedures became effective June 14, 2012.

**AUDIT TEAM**

**Adam J. Westover, CPA**  
Audit Manager

**Athenia M. Rock, CFE**  
Senior Auditor

**Matthew D. Straw**  
Staff Auditor