Audit Report

Department of Health and Mental Hygiene
Spring Grove Hospital Center

November 2012

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

November 2, 2012

Bruce A. Myers, CPA
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 Spring Grove Hospital Center (SGHC) of the Department of Health and Mental Hygiene for the period beginning June 1, 2009 and ending January 17, 2012. SGHC provides comprehensive mental health services to residents of Baltimore City, and Baltimore and Harford counties.

Our audit disclosed that SGHC had not established adequate controls over the processing of its cash receipts. Our audit also disclosed that SGHC improperly paid overtime compensation of approximately $21,000 to 12 employees who were ineligible for overtime because of their employment classifications. Finally, accountability over equipment inventory record keeping was not comprehensive, and current agreements were not always maintained for property leased by SGHC to other State agencies.

The Department of Health and Mental Hygiene's response to this audit, on behalf of SGHC, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by SGHC.

Respectfully submitted,

Thomas J. Barnickel III, CPA
Acting Legislative Auditor

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

Background Information

Agency Responsibilities

Spring Grove Hospital Center (SGHC), which is located in Catonsville, Maryland, provides a wide range of comprehensive mental health services to residents of Baltimore City, and Baltimore and Harford Counties. Furthermore, SGHC provides inpatient competency and criminal responsibility evaluations and provides long-term inpatient and domiciliary care to patients found not criminally responsible. In addition, SGHC provides ancillary services to the Maryland Psychiatric Research Center, a joint program between the Department of Health and Mental Hygiene and the University of Maryland, School of Medicine. During fiscal year 2011, SGHC, which is accredited by the Joint Commission (formerly the Joint Commission on Accreditation of Healthcare Organizations), had an average daily population of 433 patients and a licensed capacity of 639 beds. According to the State's records, total SGHC expenditures were approximately $76.8 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 March 8, 2010. We determined that SGHC satisfactorily addressed four of these findings. The remaining finding is repeated in this report.

Findings and Recommendations

Cash Receipts

Finding 1
Proper internal controls were not established over cash receipts.

Analysis
SGHC had not established proper internal controls over cash receipts, which according to State accounting records in fiscal year 2011 totaled approximately $1 million, including $233,000 in cafeteria sales. For example, our audit disclosed the following conditions:

- Collections were not properly verified to deposit. The employee who performed the deposit verification for all collections was not independent of the cash receipts process. In addition, for cafeteria collections, the employee did not use the initial record of collections to perform the deposit verification.

- There was no independent verification of the continuity of cash register tapes used in the cafeteria by comparing the ending transaction number from one tape to the beginning transaction number of the next tape.

Because of these conditions, there was a lack of assurance that all collections were deposited. The Comptroller of Maryland's *Accounting Procedures Manual* requires that a reconciliation of recorded collections to amounts deposited be performed by an employee independent of the cash receipts functions and that cash register tapes be independently verified for continuity.

Recommendation 1
We recommend that SGHC

a. ensure that deposit verifications were performed by an employee independent of the cash receipt functions, using initial receipt records; and
b. independently verify the continuity of cafeteria cash register tape transaction numbers.

We advised SGHC on accomplishing the necessary separation of duties using existing personnel.

Payroll

Finding 2
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. Specifically, our test of the overtime eligibility of all employees that received overtime payments during our audit period disclosed 12 ineligible employees. Overtime paid to these 12 employees totaled $21,131 during our audit period. SGHC management was not aware that these employees were ineligible for monetary overtime compensation until we brought the situation to its attention.

The Department of Budget and Management 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. During calendar year 2011, SGHC paid approximately $2.9 million in employee overtime according to the State's records.

Recommendation 2
We recommend that SGHC

a. ensure that overtime compensation is only paid to eligible employees, and
b. consult with the DHMH Attorney General to determine whether recovery of the overtime compensation previously paid to ineligible employees should be pursued.

Equipment

Finding 3
SGHC did not properly account for and control its equipment inventory.

Analysis
SGHC did not properly account for and control its equipment inventory. According to its records, as of April 2012, SGHC's equipment inventory totaled

approximately $3.7 million, including $1.5 million in sensitive equipment. Specifically, we noted the following conditions:

- Sensitive items were not subject to annual physical inventories as required by the Department of General Services' (DGS) *Inventory Control Manual*. Specifically, an annual physical inventory of the sensitive items had not been conducted during fiscal year 2009. Although physical inventories had been initiated during fiscal years 2010 and 2011, the inventory processes had not been completed. For example, SGHC initiated a physical inventory of sensitive items in June 2011, but it had not been completed as of May 2012. SGHC was still in the process of investigating the disposition of 559 missing items valued at $429,000. A similar condition concerning a lack of annual physical inventories of sensitive items was commented on in our three preceding audit reports.

- SGHC did not follow proper procedures in disposing of 58 items, with a recorded cost of $53,000 and consisting of unused information technology, medical, and housekeeping equipment, in September 2011. Specifically, these items were not reported as surplus property and formal DGS approval was not obtained authorizing disposal of the items. Furthermore, although the items had been disposed of, as of May 2012, these items had not been deleted from SGHC's inventory records.

The *Inventory Control Manual* specifies that State agencies conduct physical inventories of sensitive items at least once a year. The *Manual* also states records for missing items shall be investigated. Finally, the *Manual* requires agencies to report equipment items disposed from inventory records to DGS.

Recommendation 3

We recommend that, as required by the *Inventory Control Manual*, SGHC

a. conduct physical inventories of sensitive equipment on an annual basis (repeat),

b. investigate any missing items based on the comparison of physical inventory results to the related equipment records, and

c. dispose of excess equipment after declaring property surplus and obtaining formal DGS approval and adjust the equipment records for all disposals.

Leased Property

Finding 4
Current formal agreements were not always executed for SGHC's leased properties, and SGHC could not document how the lease payment amounts were calculated.

Analysis
Formal agreements were not always executed or updated for properties on SGHC's campus leased to other State agencies. Such agreements should delineate each party's responsibilities and provide for lease payment amounts sufficient to ensure appropriate recovery of costs such as utilities and maintenance. Furthermore, SGHC could not document how the lease payments were calculated or if they were sufficient to recover all associated maintenance and operation costs. According to State records, SGHC's fiscal year 2012 leased property revenue totaled approximately $1 million and is accounted for as reimbursable fund income in SGHC's annual operating budget. During the audit period, SGHC leased office space to one campus of the University of Maryland System and six DHMH agencies.

Our review disclosed that SGHC did not have agreements with four of the agencies that accounted for approximately $508,000 in annual rental and utility reimbursements. However, when agreements, which specified the leased space, the square foot lease charge, and the utility and maintenance costs to be paid to SGHC, did exist, the agreements were not always current. Specifically, we noted two of the three existing agreements were not current including one agreement that had not been updated since fiscal year 2000.

Recommendation 4
We recommend that SGHC

a. execute or update existing agreements for leased property stipulating each party's responsibilities, and
b. determine and document the lease payment amounts necessary to ensure appropriate cost recovery.

Audit Scope, Objectives, and Methodology

We have audited the Spring Grove Hospital Center (SGHC) of the Department of Health and Mental Hygiene for the period beginning June 1, 2009 and ending January 17, 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 SGHC'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 SGHC's operating expenditures, as well as payroll, cash receipts, and pharmaceutical and equipment inventories. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of SGHC'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.

SGHC'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 SGHC's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our audit also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to SGHC that did not warrant inclusion in this report.

The response from the Department of Health and Mental Hygiene, on behalf of SGHC, 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

November 1, 2012

Thomas J. Barnickel, III, CPA
Acting Legislative Auditor
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, MD 21201

Dear Mr. Barnickel:

Thank you for your letter regarding the draft audit report for the Department of Health and Mental Hygiene – Spring Grove Hospital Center for the period beginning June 1, 2009 and ending January 17, 2012. Enclosed you will find the Department's response and plan of correction that addresses each audit recommendation. I will work with the appropriate Administration Directors, Programs Directors 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 Roody, Chief of Staff, Behavioral Health and Disabilities, DHMH
Brian Hepburn, M.D., Executive Director, Mental Hygiene Administration, DHMH
Cheryl Heilman, R.N., Acting Superintendent, Spring Grove Hospital Center
Patrick Dooley, Chief of Staff, Office of the Secretary, DHMH
Thomas Russell, Inspector General, DHMH
Ellwood L. Hall, Jr., Assistant Inspector General, DHMH

Findings and Recommendations

Cash Receipts

Finding 1
Proper internal controls were not established over cash receipts.

Auditor's Recommendation 1:
We recommend that SGHC

a. ensure that deposit verifications were performed by an employee independent of the cash receipt functions, using initial receipt records; and
b. independently verify the continuity of cafeteria cash register tape transaction numbers.

We advised SGHC on accomplishing the necessary separation of duties using existing personnel.

Administration's Response:

a. The Administration concurs with the recommendation. The employee that performs the deposit verification had unnecessarily been reviewing the deposit prior to the deposit being made, thereby giving her access to cash. As of August 16, 2012, the employee making the deposit, prepares the deposit by herself and then gives the deposit directly to the SGHC Police officer to take to the bank. The deposit verification is then independently done by the other employee, using initial receipt records.

b. The Administration concurs with the recommendation. Effective June 15, 2012, the CFO is independently verifying the continuity of the cafeteria cash register tape transactions.

Payroll

Finding 2
Certain employees were paid overtime compensation, even though the employees were ineligible to receive such compensation based on their employment classifications.

Auditor's Recommendation 2:

We recommend that SGHC

a. ensure that overtime compensation is only paid to eligible employees, and
b. consult with the DHMH Attorney General to determine whether recovery of the overtime compensation previously paid to ineligible employees should be pursued.

Administration's Response:

a. The Administration concurs with the recommendation. The Administration will ensure that overtime compensation is only paid to eligible employees. A review of all employees receiving overtime was completed July 30, 2012. Going forward, the SGHC Timekeeping Unit will check all new hires and reclassifications against DBM's list to ensure the overtime eligibility of personnel.

b. The Administration concurs with the recommendation. The Administration will consult with the DHMH Attorney General to determine whether recovery of the overtime compensation previously paid to ineligible employees should be pursued.

Equipment

Finding 3
SGHC did not properly account for and control its equipment inventory.

Auditor's Recommendation 3:

We recommend that, as required by the *Inventory Control Manual*, SGHC

a. conduct physical inventories of sensitive equipment on an annual basis (repeat),
b. investigate any missing items based on the comparison of physical inventory results to the related equipment records, and
c. dispose of excess equipment after declaring property surplus and obtaining formal DGS approval and adjust the equipment records for all disposals.

Administration's Response:

a. The Administration concurs with the recommendation. Physical inventories of sensitive equipment will be done on an annual basis. The CFO, with the approval of the DHMH Central Services Division, has moved the timing of the physical inventory to September, from June, to not conflict with competing priorities including end of fiscal year closing and related reports. Although, the sensitive equipment inventory was started in September 2012, due to unforeseen problems with bar code readers and corrupt files, requiring multiple calls/meetings with the program creater, the annual sensitive equipment inventory will be completed by no later then October 31, 2012.

b. The Administration concurs with this recommendation. The Administration has placed a great priority on investigating any missing items based on the comparison of physical inventory results to the related equipment records. An Administrative Specialist II has been assigned to work directly with the CFO and Accountable Officers, to minimize the amount of potential missing inventory. The final investigation of missing items will be complete by November 14, 2012, and a Report of Missing/Stolen Property filed with DGS by November 30, 2012.

c. The Administration concurs with this recommendation. The hospital will dispose of excess equipment after declaring property surplus and obtaining formal DGS approval and adjust the equipment records for all disposals. SGHC Procurement/Property staff had verbal approval from the DGS Program Manager Inventory Standards and Support Services Division, to dispose of items such as antiquated/broken vacuum cleaners, beds, and T.V.'s, but the SGHC staff failed to complete the proper paperwork prior to actual disposal. Following completion of the inventory by October 31, 2012, it is expected that a surplus inventory report will be filed by November 30, 2012.

Leased Property

Finding 4
Current formal agreements were not always executed for SGHC's leased properties, and SGHC could not document how the lease payment amounts were calculated.

Recommendation 4
We recommend that SGHC

a. execute or update existing agreements for leased property stipulating each party's responsibilities, and
b. determine and document the lease payment amounts necessary to ensure appropriate cost recovery.

Administration's Response:

a. The Administration concurs with the recommendation. The CFO/COO will work together to execute/update existing agreements for leased property stipulating each party's responsibilities. This process began with a meeting held July 13, 2012, with OHCQ, SGHC's largest tenant.

b. The Administration concurs with this recommendation. The CFO will determine and document the lease payment amounts necessary to ensure appropriate cost recovery. However, any increase in reimbursement revenue from the tenants must be reviewed and approved by the Department of Budget Management. These approved amounts will be negotiated as the MOU's are updated.

AUDIT TEAM

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