

Audit Report

**Department of Health and Mental Hygiene
Spring Grove Hospital Center**

March 2010



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

March 8, 2010

Bruce A. Myers, CPA
Legislative Auditor

Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Delegate Steven J. DeBoy, Sr., 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 16, 2006 and ending May 31, 2009. SGHC provides comprehensive mental health services to residents of Baltimore City, and Baltimore and Harford counties.

Our audit disclosed that the awarding of two contracts to a vendor in December 2008 appeared questionable. Specifically, SGHC lacked documentation that the vendor's bids had been received prior to the submission deadline and that the bids had been reviewed by the bid evaluation committee. In a special review report dated November 10, 2008, we commented on other deficiencies involving questionable procurement practices and transactions with certain vendors, including the vendor who was awarded these two contracts, and previously referred these matters to the Office of the Attorney General's Criminal Division.

In addition, we noted internal control weaknesses related to cash receipts, patient accounts, and materials and supplies and equipment inventories.

The Department of Health and Mental Hygiene's response, on behalf of SGHC, to this audit 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,

Bruce A. Myers, CPA
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, which is affiliated with the University of Maryland. During fiscal year 2009, SGHC, which is accredited by the Joint Commission on Accreditation of Healthcare Organizations, had an average daily population of 429 patients and a licensed capacity of 639 beds. According to the State's records, total SGHC expenditures were approximately \$76.3 million during fiscal year 2009.

Status of Special Review

On November 10, 2008, we issued a Special Review report on SGHC that disclosed questionable procurement practices and transactions that involved several contractors. The special review was conducted as a result of allegations received through our fraud hotline regarding possible improper procurement activities related to certain SGHC maintenance projects. Our report also disclosed that personal relationships existed between certain SGHC employees and contractors that may have violated State Ethics Laws and a related Governor's Executive Order. Due to the questionable nature of the activities described in this report, we referred these matters to the Office of the Attorney General's Criminal Division.

Status of Findings From Preceding Audit Report

We reviewed the status of the 10 items from our preceding audit report dated April 2, 2007. We determined that SGHC satisfactorily addressed 8 of these items. The remaining 2 items are repeated in this report.

Findings and Recommendations

Procurement of Time and Materials Contracts

Background

In December 2008, the Spring Grove Hospital Center (SGHC) entered into contracts with various vendors to provide maintenance-related services (such as heating, ventilation, air conditioning, and plumbing services) on a time and materials basis. In that regard, SGHC solicited bids from vendors based on labor rates and the percentage of markup on materials for these services. SGHC then entered into contracts with as many as three vendors in each service category that, as determined by SGHC, submitted the lowest cost proposals, thus locking in the labor rates to be charged as well as the markup percentages allowed on materials. Each of these vendor contracts was for a one-year term and was not to exceed \$25,000 in total services in a specific service category; certain vendors were awarded contracts in more than one category. As maintenance projects were identified, SGHC contacted one of the vendors under contract (generally the vendor that had submitted the lowest cost proposal in the related service category) to determine if the vendor could undertake the project. If the first vendor contacted declined the project, another vendor under contract was then contacted.

Finding 1

Contract awards made by SGHC to one vendor appeared questionable.

Analysis

SGHC's awarding of two time and materials contracts to one vendor, each not to exceed \$25,000, for mechanical services and for heating, ventilation, and air conditioning (HVAC) services appeared questionable. Specifically, our review disclosed the following conditions:

- SGHC could not provide any supporting documentation (such as date-stamped envelopes) to substantiate that the vendor's bid proposals for the two service categories had been received prior to the deadline required for submission of bids. This is significant as date and time stamped envelopes were on file for all other vendors that submitted bid proposals for these two service categories.
- SGHC lacked documentation to substantiate that the bid proposals submitted by this vendor had been opened and reviewed by the bid evaluation committee. Specifically, we were advised that, as bid proposals were opened by the committee, one member of the bid committee prepared handwritten listings of the bidders and the related price proposal information. This employee also initialed the bid proposals submitted by each vendor to

document the bid opening and review process. However, our review disclosed that, for the two aforementioned contracts, this employee had not recorded the vendor on the handwritten summary of bids, and had not initialed the vendor's bid proposals. Furthermore, for one of the two procurements, another member of the bid committee had added the vendor to the handwritten bid summary. The bid committee member who prepared the original handwritten listings of bidders and initialed the bid proposals could not provide an explanation for these abnormalities. Subsequently, SGHC advised that this situation occurred because the vendor submitted proposals for three separate contracts together in one envelope and this was discovered by the other member of the bid committee when recording the detailed bid summaries. However, SGHC could not substantiate this.

In a report dated November 10, 2008, we commented on several deficiencies identified as a result of a special review conducted of SGHC's procurement activities related to maintenance projects. Certain of these deficiencies involved questionable transactions with vendors, including the vendor who was awarded the aforementioned contracts. At that time, we referred those matters to the Office of the Attorney General's Criminal Division. (This special report is more fully discussed on page 4 of this report.)

Recommendation 1

We recommend that SGHC

- a. refer the aforementioned questionable contract awards to the Office of the Attorney General's Criminal Division; and**
- b. in the future, properly document its procurement process, including sufficiently documenting that bids are received prior to bid submission deadlines and that bids are evaluated upon bid opening by all bid committee members.**

Cash Receipts

Finding 2

Internal controls over cash receipts were inadequate.

Analysis

SGHC had not established adequate internal controls over cash receipts. According to SGHC records, receipts collected during fiscal year 2009 totaled \$893,856, of which \$396,000 were received by mail. Specifically, our audit disclosed the following conditions:

- Checks received in the mail were not recorded and restrictively endorsed “for deposit only” immediately upon receipt. Instead, checks were forwarded to a second employee in the same unit who logged the checks and restrictively endorsed them.
- Certain collections were not properly verified to deposit. In that regard, the employee who performed the deposit verification was not independent of the cash receipts process, and did not use the document of initial recordation of collections for mail receipts, patient funds, and cafeteria collections to perform the deposit verification. According to the State’s records, patient fund collections (some of which were received in the mail) and cafeteria collections totaled approximately \$438,000 and \$192,000 during fiscal year 2009, respectively.
- Internal controls over voided transactions at the cafeteria were not adequate. Specifically, cashiers had the ability to process voided transactions without supervisory review and approval, and there was no documentation to substantiate that voided transactions had been reviewed and approved by supervisory personnel. According to SGHC records, during fiscal year 2009, voided transactions processed by the cafeteria totaled approximately \$68,000.

The Comptroller of Maryland’s *Accounting Procedures Manual* requires that cash receipts be initially recorded and restrictively endorsed “for deposit only” immediately upon receipt. Additionally, the *Manual* requires that a reconciliation of recorded collections to amounts deposited be performed by an employee independent of the cash receipts functions, and that supervisory personnel review and approve voided transactions.

Recommendation 2

We recommend that SGHC

- restrictively endorse and record mail receipts “for deposit only” immediately upon receipt,**
- use the documents of initial recordation of collections in the deposit verification process,**
- ensure that deposit verifications are performed by an employee independent of the cash receipt functions, and**
- ensure that supervisory personnel review and approve voided cafeteria transactions and that such verifications are documented.**

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

Patient Funds

Finding 3

SGHC had not established adequate internal controls over patient fund accounts.

Analysis

Internal controls over SGHC's patient fund accounts were not adequate. Specifically, SGHC maintained 303 patient fund accounts for which the related funds were on deposit with the State Treasurer. For patient fund accounts that exceed \$300, in accordance with State Law, SGHC deposits the excess amounts in separate interest bearing accounts. SGHC also maintains a working fund checking account for routine patient fund disbursements. During fiscal year 2009, patient fund collections and disbursements totaled approximately \$438,000 and \$399,000, respectively. As of June 30, 2009, patient fund account balances totaled approximately \$120,000, of which \$76,000 represented investment account balances. Specifically, our audit disclosed the following conditions:

- SGHC did not adequately separate duties related to the maintenance of patient fund accounts. Specifically, one employee had unrestricted access to the patient fund account records, and was responsible for establishing new interest bearing investment accounts and transferring funds between the investment accounts and the patient fund account maintained with the State Treasurer. In addition, this employee had access to patient fund collections and to the petty cash fund and checking account used for patient fund disbursements. As a result, this employee could misappropriate patient funds without timely detection.
- Upon discharge of a patient, any balance remaining in the patient's account in excess of \$250 was disbursed to the patient through the State Comptroller's Office. Our audit disclosed that the aforementioned employee was responsible for initiating and approving these payments in the State's accounting system. Although supervisory personnel reviewed the patient account records in support of these disbursements, relevant documentation (such as patient discharge orders) was not reviewed. Consequently, there is limited assurance as to the propriety of the disbursements. According to the State's accounting records, during fiscal year 2009, this employee initiated and approved approximately \$51,000 in disbursements to discharged patients.

Recommendation 3

We recommend that SGHC

- a. ensure that employees with access to the patient account records are not responsible for establishing and maintaining investment accounts, and do not have access to patient fund collections or related bank accounts; and**
- b. ensure that supervisory personnel review adequate documentation supporting disbursements to discharged patients (such as patient discharge orders).**

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

Materials and Supplies

Finding 4

Dietary and certain pharmaceutical materials and supplies inventories were not adequately controlled.

Analysis

SGHC had not established adequate internal controls over its dietary and certain pharmaceutical materials and supplies inventories. According to its records, during fiscal year 2009, SGHC expenditures for dietary and certain pharmaceutical items totaled approximately \$1.2 million and \$800,000, respectively. Specifically, our audit disclosed the following conditions:

- The pharmacists who served as custodians of controlled dangerous substances and certain high volume, high dollar value drugs also maintained the perpetual inventory records and conducted the related physical inventories. These employees also investigated differences between the physical inventory counts and perpetual records for controlled dangerous substances. Investigations of differences were not performed for the high volume, high dollar value drugs. Additionally, high volume, high dollar value drugs returned to the pharmacy as unused were not recorded in the inventory records. As a result, inventory records did not reflect accurate balances and inventory quantities on hand frequently exceeded quantities reflected in the related records. Furthermore, copies of completed requisitions attesting to the amount of drugs disbursed from the pharmacy were not retained by the requesting departments (that is, the nursing wards) so that records could be compared to ensure inventory postings were accurate. Certain of these conditions were commented upon in our preceding audit report.

- Physical inventories for dietary items were conducted by employees who also had routine access to these items. These same employees also investigated differences between the physical inventory counts and the perpetual inventory records. In addition, copies of completed requisitions signed by the employees who received the supplies were not provided to the requesting departments. Rather, completed requisitions were initially retained by the storeroom custodian who subsequently forwarded one copy to the employee who maintained the perpetual inventory records to post the withdrawals. As a result, supplies could be misappropriated without detection. The condition concerning the lack of an independent physical inventory of dietary supplies was commented on in our preceding audit report.

As a result of these conditions, these pharmaceutical and dietary inventory items could be misappropriated without timely detection. The Department of General Services' *Inventory Control Manual* establishes recordkeeping and internal control requirements applicable to materials and supplies inventories. These requirements include the retention of all completed requisitions for the period between legislative audits. In addition, the *Manual* requires adequate segregation of duties for storekeeping, recordkeeping, and inventory taking.

Recommendation 4

We recommend that SGHC

- ensure that employees who conduct physical inventories, investigate differences between physical inventory counts and perpetual inventory records, and maintain the inventory records do not have routine access to the related inventories (repeat);**
- investigate all differences between physical inventory counts and the perpetual inventory records;**
- record unused drugs returned to the pharmacy in the perpetual inventory records (repeat); and**
- ensure that copies of completed requisitions are provided to and retained by the requesting departments, and that these copies are compared, at least on a test basis, to the copies used for inventory postings (repeat).**

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

Equipment

Finding 5

SGHC did not properly account for and control equipment it received in conjunction with the closing of another State facility. Additionally, SGHC did not conduct physical inventories of equipment and maintain certain records, as required.

Analysis

SGHC did not properly account for and control its equipment inventory. According to its records, as of June 30, 2009, SGHC's equipment inventory totaled approximately \$6.3 million. Specifically, we noted the following conditions:

- SGHC did not properly control and account for equipment items totaling approximately \$1.1 million received from Crownsville Hospital Center (CHC) in conjunction with the closing of that facility in June 2004. Specifically, SGHC did not prepare or obtain documentation (for example, signed receiving reports) identifying the specific items received from CHC; accordingly, the extent to which these items were recorded in the equipment records could not be determined. Additionally, we were advised by SGHC management personnel that no verification had been performed to substantiate that all equipment items transferred from CHC had been received by SGHC. A similar condition was commented upon in our preceding audit report.
- SGHC did not complete physical inventories of equipment as required by the Department of General Services' *Inventory Control Manual*. Specifically, SGHC initiated a physical inventory in October 2007 but had not completed the inventory as of August 2009. In that regard, our review of SGHC's equipment records disclosed that, as of June 30, 2009, 668 sensitive inventory items totaling approximately \$466,000 had not been inventoried in over two years, and 118 non-sensitive items totaling approximately \$150,000 had not been inventoried in over four years. A similar condition was commented upon in our two preceding audit reports.
- SGHC did not properly investigate equipment items identified as missing during the aforementioned physical inventory initiated in October 2007. Specifically, the investigations were conducted by the employees who had custody of the missing equipment. Additionally, the missing items that were subsequently located were not scanned into SGHC's barcode inventory system. Rather, the custodians investigating the missing items made notations on missing item reports indicating which items were located, and

the reports were used by the inventory record keeper to update the inventory records. As a result, there is a lack of assurance that the missing items had, in fact, been located.

- An equipment control account was not maintained for sensitive and non-sensitive equipment items with an individual cost of less than \$50,000. According to SGHC's records, such equipment totaled approximately \$4.7 million as of June 30, 2009. A similar condition was commented upon in our three preceding audit reports.

The Department of General Services' *Inventory Control Manual* requires that State agencies conduct a complete physical inventory of sensitive equipment items at least once every year and of non-sensitive equipment items at least once every three years. The *Manual* also specifies equipment recordkeeping requirements to be followed by State agencies. Generally, agencies should maintain an inventory control account for non-sensitive equipment items costing \$100 or more and sensitive equipment items costing \$50 or more.

Recommendation 5

We recommend that SGHC properly control and account for all equipment received. Specifically, we recommend that SGHC

- a. determine whether all items transferred from CHC were received and recorded, and investigate any missing items (repeat);**
- b. perform physical inventories of its equipment within the timeframes required by the *Inventory Control Manual* (repeat);**
- c. ensure that items identified as missing during a physical inventory are independently investigated and when subsequently located are scanned using the inventory barcode system; and**
- d. maintain an independent equipment control account for its entire equipment inventory, and periodically reconcile the control account balance with the related detail records, as required by the *Inventory Control Manual* (repeat).**

Audit Scope, Objectives, and Methodology

We have audited the Spring Grove Hospital Center (SGHC) for the period beginning June 16, 2006 and ending May 31, 2009. 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 controls, and to evaluate their compliance with applicable State laws, rules, and regulations. The areas addressed by the audit included procurements and disbursements related to maintenance and SGHC's operating expenditures, as well as payroll, cash receipts, patient accounts, and equipment and materials and supplies inventories. 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. 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 the 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 findings related to conditions that we consider to be a 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 report 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 – John M. Colmers, Secretary

March 5, 2010

Mr. 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 Spring Grove Hospital Center beginning June 16, 2006 and ending May 31, 2009. 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, Program Directors, and Deputy Secretary to promptly address all audit exceptions. In addition, the 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 410-767-6505 or Thomas Russell of my staff at 410-767-5862.

Sincerely,

John M. Colmers
Secretary

Enclosure

cc: Renata Henry, Deputy Secretary Behavioral Health & Disabilities, DHMH
Valerie A. Roddy, Assistant Director to Deputy Secretary, PHS, DHMH
Brian Hepburn, M.D., Executive Director, MHA, DHMH
David Helsel, M.D., Superintendent, SGHC, DHMH
Andrea Braid, COO, SGHC, DHMH
Thomas V. Russell, Inspector General, DHMH
Ellwood L. Hall Jr., Assistant Inspector General, DHMH.

Findings and Recommendations

Finding 1

Contract awards made by SGHC to one vendor appeared questionable.

Recommendation 1

We recommend that SGHC

- a. refer the aforementioned questionable contract awards to the Office of the Attorney General's Criminal Division; and**
- b. in the future, properly document its procurement process, including sufficiently documenting that bids are received prior to bid submission deadlines and that bids are evaluated upon bid opening by all bid committee members.**

Center's Response 1

- a. The Center concurs with the recommendation that the questionable contract awards be referred to the Office of the Attorney General's Criminal Division. We will comply with the Governor's Executive Order and will make the required notifications. The particular contractor in question submitted three separate time and material bid proposals for HVAC, Mechanical Services, and Plumbing Services together in a single envelope. This one envelope was date and time stamped when received, per SGHC Procurement procedures. The Bid Committee then reviewed the bids for each specific service. For example, all mechanical service bids were received before the Bid Committee went on to review plumbing services bids and then HVAC bids. However, for this one contractor all three bids were bundled in one package, and at the time, the Bid Committee did not realize it. A member of the Committee logged in the bids but failed to see the other two attached. After the committee met, in posting the bid awards to an Excel worksheet, the CFO discovered the two bids attached to the remaining bid. Knowing that these two bids were submitted on time, the CFO added the information to the worksheet. SGHC work was to be rotated among the top three bidders. The particular vendor in question was among the top three. Had the vendor not been properly listed among the top three, the vendor would have had a legitimate complaint against SGHC for procurement practices, as the vendor submitted all three bids on time.
- b. We concur with the recommendation that in the future, the Center must properly document its procurement process, including sufficiently documenting that bids are received prior to bid submission deadlines and that

bids are evaluated upon bid opening by all bid committee members. The Bid Committee continues to verify that bids are submitted on time. Each bid is date and time stamped. Vendors will be encouraged to not submit multiple bids in one envelope, should the opportunity arise again. The Bid Committee also reviews all material submitted to make sure nothing is overlooked. All bid sheets are now signed by each committee member to verify they have seen the bid sheet.

Cash Receipts

Finding 2

Internal controls over cash receipts were inadequate.

Recommendation 2

We recommend that SGHC

- a. restrictively endorse and record mail receipts “for deposit only” immediately upon receipt,**
- b. use the documents of initial recordation of collections in the deposit verification process,**
- c. ensure that deposit verifications are performed by an employee independent of the cash receipt functions, and**
- d. ensure that supervisory personnel review and approve voided cafeteria transactions and that such verifications are documented.**

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

Center’s Response 2

- a. The Center concurs with the recommendation that mail receipts be initially recorded and endorsed immediately upon receipt. Since December 1, 2009, the employee who opens the mail records the check and immediately stamps the check to restrictively endorse it.
- b. The Center concurs with the recommendation that documents of initial recordation be used in the deposit verification process. Since December 1, 2009, a fiscal clerk in Accounts Payable uses the documents of initial recordation (receipts) to complete the deposit verification process.

- c. The Center concurs with the recommendation that an employee independent of the cash receipt functions be responsible for deposit verifications. Since December 1, 2009, a fiscal clerk independent of the cash receipt functions completes the verification.
- d. The Center concurs with the recommendation that Café supervisory personnel review and approve voided cafeteria transactions and that such verifications be documented. Following the previous audit, the supervisor began reviewing all voided transactions. However, she did not initial the voided transactions. Effective November 4, 2009, the supervisor began initialing the voids.

Patient Funds

Finding 3

SGHC had not established adequate internal controls over patient fund accounts.

Recommendation 3

We recommend that SGHC

- a. **ensure that employees with access to the patient account records are not responsible for establishing and maintaining investment accounts, and do not have access to patient fund collections or related bank accounts; and**
- b. **ensure that supervisory personnel review adequate documentation supporting disbursements to discharged patients (such as patient discharge orders).**

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

Center's Response 3

- a. The Center concurs with the recommendation that employees with access to the patient account records should not be responsible for establishing and maintaining investment accounts, and should not have access to patient fund collections or related bank accounts. Since December 1, 2009, employees responsible for establishing and maintaining investment accounts and employees with access to patient fund collections or related bank accounts do not have access to patient account records. Since December 1, 2009, monthly patient fund reconciliations include reconciliations of invested funds

per the patient account system to the corresponding records of the bank, and such reconciliations are performed by supervisory personnel.

- b. The Center concurs with the recommendation that supervisory personnel review adequate documentation supporting disbursements to discharged patients. All requests for patient disbursements are being forwarded to the CFO from the social worker. The requests indicate patient name, discharge date, and where patient funds should be forwarded. However, a standardized form is not being used. The CFO and Director of Social Work will develop a form to provide adequate documentation for these disbursements and implement by March 31, 2010.

Materials and Supplies

Finding 4

Dietary and certain pharmaceutical materials and supplies inventories were not adequately controlled.

Recommendation 4

We recommend that SGHC

- a. **ensure that employees who conduct physical inventories, investigate differences between physical inventory counts and perpetual inventory records, and maintain the inventory records do not have routine access to the related inventories (repeat);**
- b. **investigate all differences between physical inventory counts and the perpetual inventory records;**
- c. **record unused drugs returned to the pharmacy in the perpetual inventory records (repeat); and**
- d. **ensure that copies of completed requisitions are provided to and retained by the requesting departments, and that these copies are compared, at least on a test basis, to the copies used for inventory postings (repeat).**

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

Center's Response 4 (Pharmacy)

- a. The Center concurs with the recommendation to ensure that employees who conduct physical inventories, investigate differences between physical inventory counts and perpetual inventory records, and maintain the inventory records do not have routine access to the related inventories. Beginning with the February 2010 inventory of our high volume, high dollar value drugs, a representative from our Purchasing department will conduct the monthly count for the "Inventory Reporting Form" report we send to Mental Health Reporting Program office and more recently, the DGS. However, we disagree with this recommendation for our controlled dangerous drugs as Federal and State law prohibits access to these type drugs by non-pharmacy personnel. For these drugs, we will continue to conduct monthly inventory by two pharmacists who will rotate this assignment of inventory control. All differences in inventory counts, if any, are investigated by a pharmacist who was not involved in the inventory count.
- b/c. The Department at this time is unable to comply with the recommendation to investigate all differences between physical inventory counts and inventory records, nor are they able to account for all unused drugs returned to stock. **The MHA facilities currently administer over 7.1 million doses of medication per year that would need to be entered into an inventory system.** Given the number of doses and individual medications involved, the DGS inventory system would require a computer driven inventory program that would include an interface to the electronic invoice data of the prime vendor, pharmacy dispensing system with accurate inventory accounting (bar code or Radio Frequency Identification capability) and an electronic Medication Administration Record (MAR). Because of these reasons, and the fact that the Centers are no longer in the business of warehousing pharmaceuticals, (Centers now contract with a vendor to provide pharmaceuticals on an as needed basis or a just in time basis), in 2002 the Department of Health and Mental Hygiene requested a waiver regarding the maintenance of a perpetual inventory for pharmaceuticals. A waiver was granted by DGS in July 2009. This waiver includes a provision that requires the ongoing enhanced **monitoring** of high volume, high dollar value drugs. Since that time, there have been ongoing meetings regarding the specific methods through which this monitoring is to be accomplished. On January 13, 2010 a meeting was held with representatives of DGS, DHMH, MHA, OIG and Office of Legislative Audits. In that meeting all in attendance agreed upon a revised monitoring form and procedure allowing increased monitoring by DGS. Spring Grove Hospital began this new procedure immediately and our February 2010 report to DGS reflects this. Additionally, all the departments who were in attendance at the January 2010 meeting agreed to continue to meet in order to continue to refine the interim monitoring

approach until resources become available to automate this task. The waiver remains in effect until 2012. The Department does, however, still perform perpetual inventory accounting for controlled substance schedule II drugs which are more subject to theft but only represent less than one percent of the total doses.

- d. The Center concurs with the recommendation to ensure that copies of completed requisitions are provided to and retained by the requesting departments; and that these copies are compared, at least on a test basis, to the copies used for inventory posting. Our Director of Pharmacy, along with our Nursing department, have determined that any requisitions for controlled drugs will be maintained by the requesting department (Nursing) for 5 years and any requisitions for other drugs (floor stock, unique or high priced items) will be kept for 2 years. The Pharmacy department will also adhere to this time frame for maintaining their copies of the requisitions. A directive to this effect will be sent to all the nursing units making them aware of this requirement by March 2, 2010. On a monthly basis, a fiscal clerk will compare 15 requisitions containing the requested copy (nursing ward) and the accounting copy (Pharmacy) of the General Requisition Form and will report any discrepancies to the CFO and Director of Pharmacy, effective March 2010.

Center's Response 4 (Dietary)

- a. The Center concurs with the recommendation that employees who conduct physical inventories, investigate differences between physical inventory counts and perpetual inventory records, and maintain the inventory records do not have routine access to the related inventories. Beginning March 2010, the Dietary department will perform its monthly physical inventory with a representative from the Purchasing department in attendance. A staff member of the Finance department will continue to maintain the perpetual inventory and in conjunction with an employee of the Dietary department, investigate differences between physical inventories and perpetual inventory records.
- b. The Center concurs with the recommendation that we investigate all differences between physical inventory counts and the perpetual inventory records. Please see response to a.
- c. n/a
- d. The Center concurs with the recommendation that the Center ensure that copies of completed requisitions are provided to and retained by the

requesting departments and that these copies be compared, at least on a test basis, to the copies used for inventory posting. On a monthly basis, a fiscal clerk will compare 15 requisitions containing the requested copy and the accounting copy of the General Requisition Form and will report any discrepancies to the CFO, effective March 2010.

Equipment

Finding 5

SGHC did not properly account for and control equipment it received in conjunction with the closing of another State facility. Additionally, SGHC did not conduct physical inventories of equipment and maintain certain records, as required.

Recommendation 5

We recommend that SGHC properly control and account for all equipment received. Specifically, we recommend that SGHC

- a. determine whether all items transferred from CHC were received and recorded, and investigate any missing items (repeat);**
- b. perform physical inventories of its equipment within the timeframes required by the *Inventory Control Manual* (repeat);**
- c. ensure that items identified as missing during a physical inventory are independently investigated and when subsequently located are scanned using the inventory barcode system; and**
- d. maintain an independent equipment control account for its entire equipment inventory, and periodically reconcile the control account balance with the related detail records, as required by the *Inventory Control Manual* (repeat).**

Center's Response 5

- a. The Center concurs with the recommendation that Spring Grove needs to determine whether all items transferred from Crownsville Hospital Center (CHC) were received and recorded and investigate any missing items. During 2007 and 2008 the Fixed Assets Section of the Procurement department, attempted to complete the reconciliation regarding the Crownsville Inventory. The Center's procurement staff went through the Center and attempted to locate all of the equipment items on the CHC list. This was a best effort by**

Procurement staff and the CFO at the time. With completion of the physical inventory in June 2010, we hope to locate the missing equipment.

- b.** The Center concurs with the recommendation that it perform physical inventories of its equipment within the time frames required by the Inventory Control Manual. Although a physical inventory was begun in 2007/2008, due to staff turnover, it was not completed. A physical inventory of sensitive equipment will be completed, March 2010 and a non-sensitive equipment inventory will be completed in June 2010.
- c.** The Center concurs with the recommendation that it ensure that items identified as missing during physical inventory are independently investigated and when subsequently located be scanned using the inventory barcode system. This procedure will be incorporated in the upcoming physical inventories, in March 2010 (sensitive) and June 2010 (non-sensitive) equipment inventories.
- d.** The Center concurs with the recommendation that it maintain an independent equipment control account for its entire equipment inventory, and periodically reconcile the control account balance with the related detail records, as required by the Inventory Control Manual. Following the previous audit, an independent control account was established by the prior CFO. However, the independent control account was not maintained in accordance with the Inventory Control Manual. An independent control account will be maintained by the CFO and reconciled with the related detailed records on a quarterly basis, effective March 2010.

AUDIT TEAM

Mark A. Ermer, CPA
Audit Manager

Edward J. Welsh
Senior Auditor

Carey L. Harper
Chiaka N. Opara
Staff Auditors