

Audit Report

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**Department of Health and Mental Hygiene  
Springfield Hospital Center**

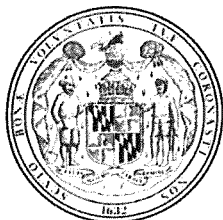
February 2012

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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

February 3, 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 Springfield Hospital Center (SHC) of the Department of Health and Mental Hygiene for the period beginning October 1, 2008 and ending July 28, 2011. SHC is a state-operated psychiatric facility within the Department's Mental Hygiene Administration and provides acute, sub-acute, long-term inpatient, and assisted living services to admitted Maryland residents.

Our audit disclosed that SHC had not established adequate controls and recordkeeping for its pharmaceutical drugs. For example, pharmacists who conducted the monthly inventory counts were also custodians of the drugs, and expired drugs returned to the vendor were not removed from the inventory records.

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

Respectfully submitted,

A handwritten signature in cursive script that reads "Bruce A. Myers".

Bruce A. Myers, CPA  
Legislative Auditor



## **Background Information**

### **Agency Responsibilities**

Springfield Hospital Center (SHC) is a state-operated psychiatric facility located in Sykesville, Maryland. SHC operates as a unit of the Department of Health and Mental Hygiene's Mental Hygiene Administration (MHA) and provides acute, sub-acute, long-term inpatient, and assisted living services to State residents. SHC is accredited by The Joint Commission to provide safe, high-quality care, treatment, and services. During fiscal year 2011, SHC had a licensed capacity of 576 inpatients, a budgeted average daily population of 270, and an actual average daily population of 265. According to the State's records, SHC's operating expenditures totaled approximately \$68.4 million during fiscal year 2011.

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

Our audit included a review to determine the status of the two findings contained in our preceding audit report dated April 13, 2009. We determined that SHC satisfactorily addressed these findings.

## **Findings and Recommendations**

### **Pharmaceutical Drugs**

#### **Finding 1**

**Springfield Hospital Center (SHC) had not established adequate controls and recordkeeping procedures for its pharmaceutical drugs.**

#### **Analysis**

SHC had not established adequate controls and recordkeeping for its pharmaceutical drugs. During fiscal year 2011, expenditures for pharmaceutical drugs totaled approximately \$2.4 million. Specifically, our audit disclosed the following conditions:

- Pharmacists who served as custodians of pharmaceutical drugs also conducted the monthly physical inventories for 8 out of 12 months tested. In addition, the pharmacists maintained inventory records and investigated differences between the physical inventory counts and related records.

- High volume, high dollar value drugs (with expenditures of approximately \$859,000 during fiscal year 2011) returned to the pharmacy as unused were not recorded in the inventory records. As a result, inventory quantities on hand frequently exceeded quantities reflected in the related records. Our review of fiscal year 2011 monthly physical inventories for eight drugs disclosed variances for each month. For example, for these eight drugs, the September 2010 inventory disclosed an aggregate overage of 1,539 tablets at an aggregate cost of \$19,695.
- Expired drugs picked up by the vendor were not removed from the inventory records. The vendor picked up 1,276 units valued at approximately \$66,000 during fiscal year 2011.

These conditions resulted in a lack of control over pharmaceutical drugs and could allow them to be misappropriated without detection. The Department of General Services' *Inventory Control Manual* requires that inventory record keeping, custody, and physical inventory duties be segregated when practical; that variances between inventory record balances and physical counts be investigated; and that any necessary adjustments be approved by supervisory personnel and recorded in the inventory records.

### **Recommendation 1**

**We recommend that SHC**

- assign responsibilities for conducting physical inventories and investigating differences between physical inventory counts and the related pharmaceutical drug inventory records to employees who do not have access to the related inventories,**
- record unused drugs returned to the pharmacy in the applicable inventory records, and**
- remove expired drugs returned to the vendors from the applicable inventory records.**

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

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

We have audited the Springfield Hospital Center (SHC) of the Department of Health and Mental Hygiene for the period beginning October 1, 2008 and ending July 28, 2011. 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 SHC'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 SHC'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 SHC'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.

SHC'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.

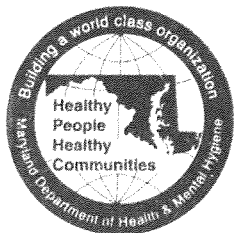
Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect SHC's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. These conditions also

represent significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to SHC that did not warrant inclusion in this report.

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

February 1, 2012

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 for the Department of Health and Mental Hygiene – Springfield Hospital Center for the period beginning October 1, 2008 and ending July 28, 2011. 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: Renata J. Henry, 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  
Paula A. Langmead, Chief Executive Office, SHC  
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

**Springfield Hospital Center  
Legislative Audit Report: Findings and Responses  
January 2012**

**Findings and Recommendations**

**Pharmaceutical Drugs**

**Finding 1**

**Springfield Hospital Center (SHC) had not established adequate controls and recordkeeping procedures for its pharmaceutical drugs.**

**Recommendation 1**

**We recommend that SHC**

- a. assign responsibilities for conducting physical inventories and investigating differences between physical inventory counts and the related pharmaceutical drug inventory records to employees who do not have access to the related inventories.**
- b. record unused drugs returned to the pharmacy in the applicable inventory records, and**
- c. remove expired drugs returned to the vendors from the applicable inventory records.**

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

**Center's Response:**

- a. The Center concurs with the recommendation to assign the responsibilities for conducting physical inventories and investigating differences between physical inventory counts and inventory records of pharmaceutical drugs to employees who do not have access to the related inventories. A new policy and procedure identifying each department's role and responsibility will be developed to include the following: a purchasing staff member (Purchasing Department) will conduct the physical inventory monthly; a pharmacy staff member (Pharmacy Department) will investigate any differences and approve adjustments; a business office staff member (Accounting Department) will maintain the inventory records; and the Pharmacy Department will be the custodian of drugs. This new policy and procedure was implemented January 1, 2012.
- b. The Center concurs with the recommendation to record unused drugs returned to the pharmacy in the applicable inventory records. The Pharmacy Department will segregate high dollar value drugs returned to the Pharmacy, allowing them to be counted during the monthly inventory count. This new procedure was implemented January 1, 2012.
- c. The Center concurs with the recommendation to document and remove expired drugs given to wholesalers from the applicable inventory records. The Pharmacy Department will segregate expired high dollar value drugs, allowing them to be counted and removed from the inventory records prior to being picked-up by Guaranteed Returns. This procedure was implemented January 1, 2012.

AUDIT TEAM

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

**Jason M. Goldstein**  
**Ryan P. Stecher**  
Staff Auditors