

Audit Report

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

April 2009



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

April 13, 2009

Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Senator Verna L. Jones, 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 December 1, 2005 and ending September 30, 2008. SHC is a state-operated psychiatric facility within the Department of Health and Mental Hygiene – Mental Hygiene Administration and provides acute, sub-acute, and long-term inpatient services to admitted Maryland residents.

Our audit disclosed that controls and recordkeeping procedures over pharmaceutical drug and dietary inventories were inadequate and did not comply with requirements of the Department of General Services. For example, SHC did not maintain perpetual inventory records for certain pharmaceutical drugs, including prescription medications, and had not established procedures to ensure that withdrawals of items from its dietary storeroom were received by authorized personnel.

Additionally, internal control weaknesses were noted with respect to patient and welfare funds.

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,

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

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 – Mental Hygiene Administration (MHA) and provides acute, sub-acute, and long-term inpatient services to residents from throughout the State. During fiscal year 2008, SHC, which is accredited by the Joint Commission on Accreditation of Healthcare Organizations, had a licensed capacity of 522 inpatients, a budgeted average daily population of 405, and an actual average daily population of 349. According to the State's records, SHC's operating expenditures totaled approximately \$72.8 million during fiscal year 2008.

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 19, 2006. We determined that SHC satisfactorily addressed four of the findings. The one remaining finding is repeated in this report.

Findings and Recommendations

Materials and Supplies

Finding 1

Springfield Hospital Center (SHC) had not established adequate controls and recordkeeping procedures for its pharmaceutical drug and dietary inventories.

Analysis

The internal controls and recordkeeping procedures in effect over SHC's pharmaceutical drugs and dietary supplies were inadequate. During fiscal year 2008, SHC spent approximately \$3.6 million for pharmaceutical drugs and approximately \$896,000 for dietary inventories, according to the State's records. We noted the following conditions:

- Other than for controlled dangerous substances (CDS) and certain high-dollar/high-volume drugs, SHC did not maintain perpetual inventory records for its pharmaceutical inventories, including prescription medications. Specifically, perpetual inventory records were not maintained for drug purchases totaling approximately \$2.6 million during fiscal year 2008. This condition was commented upon in our preceding audit report.¹
- Perpetual inventory records for CDS were maintained by the pharmacists who were also the storeroom custodians and conducted the related physical inventories. This condition was commented upon in our preceding audit report. In addition, differences between the physical counts and the balances on the related inventory records were investigated by employees who had routine access to these items. These conditions could allow misappropriations to occur without detection.
- The perpetual inventory records maintained for certain high-dollar/high-volume drugs showed numerous month-end differences between the quantities of the drugs counted by SHC personnel and the balances on the related inventory records. For example, our review of the July 2007 through January 2008 monthly physical inventory records for one drug disclosed a cumulative shortage of approximately 11,000 doses. We were advised by SHC management that such differences occurred because the electronic machine

¹ In response to this condition in our preceding audit report, the Department of Health and Mental Hygiene stated that the Mental Hygiene Administration was working with the Department of General Services (DGS) to obtain a modification to or exemption from this requirement. According to DGS personnel, this issue remains unresolved three years later.

used to dispense and account for the drugs had not been properly functioning and, therefore, did not accurately count the quantities of drugs dispensed from SHC's pharmacy inventory. However, SHC was not able to substantiate that the aforementioned shortages were entirely attributable to problems encountered with the device.

- Access to dietary materials and supplies was not adequately restricted. Specifically, six employees in the dietary department had unnecessary and unrestricted access to non-perishable food items.
- Requisitions of dietary items withdrawn from storage were not properly documented. Specifically, because SHC used a two-part form for this purpose, rather than a three-part form as required, a copy of each completed requisition form was not provided to the employee(s) who received the items withdrawn from storage. Therefore, fiscal personnel were unable to periodically compare the requisition forms used to post the dietary perpetual inventory records with related copies of the forms that should have been signed and retained by employees who received the requisitioned items. As a result, SHC lacked assurance that all items recorded on inventory records as withdrawn were actually received by the requisitioning employees. In this regard, the storeroom custodian could alter requisition forms after the delivery of goods and potentially remove unauthorized items from the storeroom without detection.

The Department of General Services' *Inventory Control Manual* generally requires that perpetual inventory records be maintained for materials and supplies for which the related expenditures exceed \$250,000 annually unless a written exemption is obtained from the Department. The *Manual* further requires that inventory record keeping, custody, and physical inventory duties be segregated when practical; that variances between perpetual record balances and physical counts be investigated; that access to storerooms be controlled; and that employees who requisition inventory items maintain one copy of the forms for receipt and verification purposes.

Recommendation 1

We recommend

- a. that SHC establish and maintain perpetual inventory records for all pharmaceutical inventories, including prescription medications (repeat);**
- b. that the responsibilities for conducting the physical inventories and maintaining the perpetual inventory records for CDS drugs be assigned to employees who do not have routine access to CDS drugs (repeat);**
- c. that significant differences between physical inventory counts and perpetual record balances of CDS drugs be investigated by an individual who does not have routine access to these inventories;**

- d. that SHC investigate and resolve all differences resulting from physical inventories of high-dollar/high-volume drugs;
- e. that SHC limit physical access to its dietary inventory to only those employees who require such access to perform their routine job functions;
- f. that SHC use three-part requisition forms to document withdrawals of dietary inventories from storage and that employees who requisition dietary items retain copies of all such forms; and
- g. that the employee who maintains the perpetual inventory records for dietary items periodically compare, at least on a test basis, the requisition forms used to post the inventory records with the signed copies retained by the employees who received the requisitioned items.

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

Patient and Welfare Funds

Finding 2

Internal controls over the patient and welfare funds were inadequate.

Analysis

Internal controls over SHC's patient and welfare funds were inadequate. Our audit disclosed the following conditions:

- Source documents, such as pre-numbered cash receipt forms, on which patient and welfare fund collections were initially recorded, were not used to verify that all such funds had been deposited. Instead, a form on which only the total of the corresponding daily collections was recorded was used to verify the accuracy of the related bank deposit. Furthermore, the employee who performed the deposit verifications did not ensure that the totals recorded on the forms agreed with the sum of the related pre-numbered receipt forms. During fiscal year 2008, patient fund and welfare fund cash receipts combined totaled approximately \$264,000.
- SHC did not properly control patient fund checks that were received in the mail and delivered to the wards for patient pickup. Specifically, patients who picked up checks in their respective wards were not required to sign the related check logs to acknowledge having received the checks. As a result, SHC lacked assurance that checks forwarded to patient wards for distribution had been received by the proper patients.

- Monthly reconciliations of SHC's patient fund accounts with the corresponding records of the State Comptroller were prepared by an employee who could also record transactions in the individual patient fund accounts and make authorized patient fund disbursements, and who also had access to undeposited patient fund collections. As a result, this employee was in a position to misappropriate funds without detection.
- Blank checks used to make patient fund disbursements were accessible to numerous fiscal personnel, including seven employees authorized to sign such checks. Although, SHC's internal policy requires two authorized signatures for checks over \$30, the bank only requires one authorized signature to honor any check amount. As a result, unauthorized disbursements could potentially be processed and not readily detected. During fiscal year 2008, patient fund disbursements totaled approximately \$246,000.

Recommendation 2

We recommend

- a. that SHC use original source documents (such as pre-numbered cash receipt forms) prepared at the time of collection to verify that all recorded cash receipts are deposited,**
- b. that SHC require all patients to sign the patient fund check logs to document the receipt of their checks,**
- c. that SHC's monthly patient fund reconciliations be prepared by an employee who is independent of the related cash receipts and disbursement functions, and**
- d. that blank check stock be physically secured to ensure that employees authorized to sign patient fund disbursement checks not have access to the related blank check stock.**

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 December 1, 2005 and ending September 30, 2008. 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. 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.

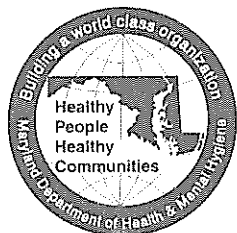
This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect SHC's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Another less significant finding was 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 – John M. Colmers, Secretary

April 10, 2009

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 Springfield Hospital Center beginning December 1, 2005 and ending September 30, 2008. Enclosed you will find the Department's response and plan of correction that addresses each audit recommendation. I will work with the appropriate Directors of Administration, Program Directors, and Deputy Secretary to promptly address all audit exceptions. In addition, the Division of Internal Audits will follow-up on the recommendations to ensure compliance.

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

Sincerely,

John M. Colmers
Secretary

Enclosure

cc: Renata J. Henry, Deputy Secretary Behavioral Health and Disabilities, DHMH
Valerie A. Roddy, Assistant Director to Deputy Secretary, DHMH
Brian Hepburn, M.D., Executive Director, MHA
Paula Langmead, CEO, Springfield Hospital Center
Ellwood L. Hall, Assistant Inspector General, Audits, DHMH
Thomas V. Russell, Inspector General, DHMH



Responses to Legislative Audit Findings and Recommendations

Materials and Supplies

Finding 1

Springfield Hospital Center (SHC) had not established adequate controls and recordkeeping procedures for its pharmaceutical drug and dietary inventories.

Recommendation 1

We recommend

- a. that SHC establish and maintain perpetual inventory records for all pharmaceutical inventories, including prescription medications (repeat);**
- b. that the responsibilities for conducting the physical inventories and maintaining the perpetual inventory records for CDS drugs be assigned to employees who do not have routine access to CDS drugs (repeat);**
- c. that significant differences between physical inventory counts and perpetual record balances of CDS drugs be investigated by an individual who does not have routine access to these inventories;**
- d. that SHC investigate and resolve all differences resulting from physical inventories of high-dollar/high-volume drugs;**
- e. that SHC limit physical access to its dietary inventory to only those employees who require such access to perform their routine job functions;**
- f. that SHC use three-part requisition forms to document withdrawals of dietary inventories from storage and that employees who requisition dietary items retain copies of all such forms; and**
- g. that the employee who maintains the perpetual inventory records for dietary items periodically compare, at least on a test basis, the requisition forms used to post the inventory records with the signed copies retained by the employees who received the requisitioned items.**

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

Center's Response

- a. We concur with the Auditors' findings that the issue of pharmacy inventory standards needs to be resolved. Resolution of this problem has been an ongoing effort between the Department of Health and Mental Hygiene and the Department of General Services.**

DHMH has met with DGS on numerous occasions to address our concerns. Additionally, correspondence during a twelve month period was forwarded to the Office of Legislative Auditors documenting our efforts. The hospital has been and continues to follow the procedure of performing a monthly count of eight drugs identified as high-cost, high-use as originally agreed to in 2002 by the Department of General Services, Department of Health and Mental Hygiene and the Office of Legislative Audits pending resolution of the issue. In April 2006, an in-depth analysis was conducted of the perpetual inventory process as it related to pharmacies, and an options paper was submitted by the Mental Hygiene Administration to the Department of General Services. Until a resolution can be reached, the hospital will continue to ensure that the monthly counts and the year end inventory are completed and performed by hospital staff that does not have routine access to the Pharmacy stock. All legal requirements of the Federal Drug Enforcement Administration and the DHMH, Division of Drug Control concerning control of Schedule II narcotics will continue to be met. Springfield will continue with the monthly inventory of the high-cost, high-use drugs, pending resolution of this issue between DHMH and DGS, and will implement the final recommended process in a timely fashion.

On April 29, 2009, the DHMH and DGS Secretaries will meet to resolve this issue.

- b. Response included in (a)
- c. Response included in (a)
- d. Response included in (a)
- e. We concur with the finding of the Auditors. On September 29, 2008, the locks to all doors where the non-perishable food items are stored were changed. Keys were re-issued to three (3) staff members whom require physical access to the dietary inventory.
- f. We concur with the finding of the Auditors that employees who requisition dietary items shall retain copies of all such forms. Springfield Hospital Center utilizes a computerized system to generate a requisition form, which contains a listing of all food items available from inventory for use, to be completed for any/all food items that are to be requisitioned from the food warehouse. A 3-part form is not utilized due to the quantity of items available in the warehouse for requisitioning and the constant changes to the food items available (i.e. seasonal selections, units of measurement, packaging sizes and changes to contracted food items).

Employees who requisition dietary items will retain a copy of the completed requisition form in order to periodically compare the items requisitioned to the items actually received. Additionally, the employee who maintains the perpetual inventory records will periodically compare the requisition forms with the signed copies retained by the employees who received the food items.

- g. Response included in (f)

Patient and Welfare Funds

Finding 2

Internal controls over the patient and welfare funds were inadequate.

Recommendation 2

We recommend

- a. **that SHC use original source documents (such as pre-numbered cash receipt forms) prepared at the time of collection to verify that all recorded cash receipts are deposited,**
- b. **that SHC require all patients to sign the patient fund check logs to document the receipt of their checks,**
- c. **that SHC's monthly patient fund reconciliations be prepared by an employee who is independent of the related cash receipts and disbursement functions, and**
- d. **that blank check stock be physically secured to ensure that employees authorized to sign patient fund disbursement checks not have access to the related blank check stock.**

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

Center's Response:

- a. We concur with the finding of the Auditors that original source documents were not always utilized to verify that all recorded cash receipts were deposited. Effective January 2009, the Accounting Department implemented a procedure that requires staff to initial and verify the original source document to ensure that all recorded cash receipts are deposited.
- b. We concur with the finding of the Auditors that patients who elected to receive their check on their respective unit were not required to sign the related check log acknowledging personal receipt of the check. Effective December 2008, the hospital implemented a procedure to assure that

checks forwarded to the patient units for distribution are received by the respective patients. All envelopes containing checks that are to be distributed to patients at their respective units are date stamped by the Accounting Department and recorded on the Patient List for Government Checks. Upon receipt of the check by the patient, the patient is required to sign the Patient Check Worksheet acknowledging receipt of the check. Additionally, the staff member on the unit distributing the envelope containing the check to the patient is required to initial the Patient Check Worksheet thereby verifying that the patient received the check. The completed Patient Check Worksheet is then forwarded by the unit to the Accounting Department for verification of receipt against the Patient List for Government Checks.

- c. We concur with the finding of the Auditors that duties relating to the monthly reconciliation of patient fund account balances must be separated. On February 4, 2009, changes in the patient accounts database were made to ensure that the employee who has responsibility for reconciling the patient detail records to the fund control account has restricted “read only” access. This restriction ensures that the employee does not have access to update the database, make and authorize fund disbursements, or have access to undeposited patient fund collections.

- d. We concur with the finding of the Auditors that blank checks used to make fund disbursements must be physically secured to ensure that employees authorized to sign patient fund disbursement checks not have access to the related blank check stock. On February 11, 2009, the Accounting Department began securing the blank checks in a locked location that is not accessible to all Accounting Department staff.

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