Audit Report

Department of Health and Mental Hygiene
Western Maryland Center

April 2010

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

April 23, 2010

Karl S. Aro
Executive Director

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 Western Maryland Center (WMC) of the Department of Health and Mental Hygiene (DHMH) for the period beginning June 5, 2006 and ending June 30, 2009. WMC provides chronic care and treatment to patients requiring a hospital-level rehabilitation program, long-term nursing home care, and outpatient renal dialysis services.

Our audit disclosed that an alleged theft of controlled dangerous substances (CDS) by a WMC employee was not referred for investigation to specified State officials as required by Executive Order. These CDS that were allegedly stolen were meant to be destroyed. In this regard, we also noted deficiencies in WMC's policies and procedures for the destruction of CDS. In addition, appropriate controls either were not in place or were not always followed for patient and working funds.

Our audit also disclosed certain questionable expenditures that had not been budgeted or otherwise authorized, as well as several other deficiencies related to purchases and disbursements. For example, competitive bids were not obtained for several procurements of goods and services, and WMC did not always comply with approval requirements for corporate purchasing card purchases.

An executive summary of our findings can be found on page 5. The DHMH response to the audit, on behalf of WMC, is included as an appendix to the report. We wish to acknowledge the cooperation extended to us during the audit by WMC.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Table of Contents

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

Executive Summary

Legislative Audit Report on
Department of Health and Mental Hygiene (DHMH)
Western Maryland Center (WMC)
April 2010

- **An alleged theft of controlled dangerous substances (CDS) by an employee was not referred for further investigation to the Office of the Attorney General (Criminal Division or the DHMH Assistant Attorney General) and to the Governor's Chief Legal Counsel, as required by Executive Order. We also noted that policies and procedures over the destruction of CDS were not comprehensive.**

  WMC should report all instances of possible criminal or unethical employee conduct, as required. WMC should also make the recommended revisions to its policies and procedures to better control the destruction of CDS.

- **WMC had not established sufficient controls over its patient and working funds and many critical functions were not adequately separated.**

  WMC should separate critical working fund duties and implement the recommended internal controls.

- **Certain questionable disbursements were made that had not been budgeted or appropriately authorized. For example, WMC incurred costs to obtain permanent United States residency for an employee. Several other deficiencies related to purchases and disbursements were noted. For example, WMC did not always comply with certain approval requirements for corporate purchasing card purchases and competitive bids were not always obtained as required.**

  WMC should ensure that disbursements are made only for authorized purposes. WMC should also comply with State and WMC requirements for corporate purchasing cards and with State Procurement Regulations.

Background Information

Agency Responsibilities

The Western Maryland Center (WMC), which is located in Hagerstown, Maryland, provides chronic care and treatment to patients requiring a hospital-level rehabilitation program, long-term nursing home care, and inpatient and outpatient renal dialysis services in the western and central counties of Maryland. During fiscal year 2009, WMC had a licensed capacity for 123 inpatients, and an average daily population of 67 inpatients. WMC is accredited by the Joint Commission on Accreditation of Healthcare Organizations. According to the State's records, WMC's expenditures were approximately $22 million during fiscal year 2009.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the six findings contained in our preceding audit report dated December 22, 2006. We determined that WMC satisfactorily addressed five of the findings. The remaining finding is repeated in this report.

Findings and Recommendations

Controlled Dangerous Substances (CDS)

Finding 1
The Western Maryland Center (WMC) did not refer for further investigation a case of alleged theft of controlled dangerous substances as required by Executive Order, and did not have comprehensive policies and procedures over the destruction of such substances.

Analysis
WMC did not refer for further investigation a case of possible criminal or unethical conduct by a State employee involving controlled dangerous substances (CDS) as required by Executive Order, and policies and procedures regarding the destruction of CDS were not comprehensive. Specifically, we noted the following conditions:

- Based on the results of an internal investigation conducted by WMC in November 2008, an employee was alleged to have taken certain controlled dangerous substances (CDS) that were meant to be destroyed. The resulting report made certain recommendations, such as to better restrict access to CDS designated for destruction and, based on our review, the recommendations were generally implemented. However, the results of the investigation were not forwarded to the Office of the Attorney General (Criminal Division or the Assistant Attorney General for the Department of Health and Mental Hygiene), or to the Governor's Chief Legal Counsel for consideration. The employee resigned from WMC prior to the discovery of this alleged incident. Executive Order 01.01.2007.01, effective February 14, 2007, requires that all departments and agencies of the State immediately refer to the Office of the Attorney General and to the Governor's Chief Legal Counsel any instance of possible criminal or unethical conduct by any employee.

- WMC's procedures did not require CDS destruction to be performed at specified intervals and/or when a specific quantity of CDS designated for destruction was on hand. In addition, certain critical information was not documented in the record of substances to be destroyed, such as when the CDS were first designated for destruction, the reason for destruction, and the individual initially recording the CDS for destruction. WMC is responsible for destroying CDS, that has been previously designated for a patient, that remain after a patient is discharged or when physician orders change. We noted that WMC destroyed 60 to 75 CDS items in each of three separate

instances during fiscal year 2007 and 75 CDS items at one time during fiscal year 2008. In fiscal year 2009, between 3 and 34 CDS items were destroyed in each of eight separate instances. A formal policy on the time frame and quantity of CDS to be held prior to destruction, as well as the recordation of certain additional data regarding CDS designated for destruction, would help management monitor and control CDS activity.

Recommendation 1

We recommend that WMC

a. report all instances of possible criminal or unethical conduct, including the aforementioned instance, as required;

b. establish a formal policy regarding the frequency of CDS destructions and the volume to be held prior to destruction;

c. ensure that CDS are destroyed consistent with the established policy; and

d. record all critical information relating to CDS destruction, including when the CDS were first designated for destruction, the reason for destruction, and the individual initially recording the CDS for destruction.

Patient and Working Funds

Finding 2
WMC lacked certain controls over patient and working funds, and control procedures in place were not always utilized.

Analysis

WMC lacked certain controls over patient and working funds, and control procedures in place were not always utilized. Consequently, errors or other discrepancies could occur without timely detection. Specifically, we noted the following deficiencies:

- Critical functions were not adequately separated since the employee who maintained the patient fund records (custodian) also processed deposits and withdrawals, reconciled the records to corresponding bank records, and served as a back-up for receiving patient fund collections. In addition, both the patient and working fund custodians were authorized check signers of their respective funds. Although, as an additional control, WMC's policy was to have checks signed by two employees, we noted four patient fund checks ($700) processed by the bank which contained only the signature of a non-custodial employee.

- Independent verifications were not performed to ensure that all working fund reimbursements were deposited. While a verification procedure was required for patient fund receipts, our test of 20 deposits totaling approximately $15,000 disclosed that, for 5 totaling $3,000, either the deposits were not verified by an independent employee or there was no documentation of a verification having been performed.

During fiscal year 2009, patient fund deposits and disbursements totaled approximately $90,000 and $81,000, respectively, while those for the working fund totaled approximately $29,000 and $31,000, respectively. WMC has a $5,000 working fund advance from the Comptroller of Maryland.

Recommendation 2
We recommend that

a. employees who maintain the patient and working fund records not be authorized to sign checks, and receive or otherwise handle collections;

b. all checks be signed by two authorized individuals as required by WMC policy; and

c. all receipts be verified to deposit by personnel independent from the cash receipts process, and that this verification be documented.

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

Purchases and Disbursements

Finding 3
WMC made certain questionable disbursements which were not budgeted or approved by DHMH.

Analysis
During our audit, we noted that WMC incurred certain questionable expenditures, none of which were included in WMC's budget or approved by the DHMH Office of the Secretary. Furthermore, many of these disbursements were made through the WMC working fund even though they were not consistent with the purposes of the working fund. The Comptroller of Maryland's *Accounting Procedures Manual* states that working fund accounts should only be used for emergency cash purchases in nominal amounts, and for travel and emergency payroll advances. Specifically, we noted the following questionable transactions:

- Through its working fund, WMC purchased approximately 340 gift cards totaling approximately $3,400 for WMC employees during calendar year 2007. We were advised that the cards were distributed to employees in appreciation for their good work, although WMC could not provide a list of employees who were given the cards. According to budget documents, at that time, WMC had fewer than 300 full-time employees.

- A working fund disbursement totaling approximately $3,000 was made for catering services for an employee holiday event.

- Disbursements totaling $8,795 were made for costs, such as legal fees and filing fees, related to obtaining permanent United States residency for an employee, including $2,295 which was processed through the working fund.

Recommendation 3
We recommend that WMC

a. in conjunction with DHMH, investigate the aforementioned disbursements to determine whether there was any misuse of State funds; and

b. ensure that State funds are spent only for authorized purposes, and that working fund disbursements are made only for the purposes specified by the Comptroller.

Finding 4
WMC did not always obtain competitive bids when procuring goods and services, as required by State Procurement Regulations.

Analysis
WMC did not always follow State Procurement Regulations regarding the solicitation of bids when procuring goods and services. Specifically, our test of selected procurement transactions made during fiscal years 2008 and 2009 disclosed the following deficiencies:

- WMC did not solicit competitive bids for the installation of a communication system costing approximately $24,000 and for certain food and lodging payments made to one vendor totaling approximately $7,500. Consequently, there was no assurance that these purchases were obtained at the lowest available price.

- Although WMC utilized a vendor to provide psychological services to patients during fiscal years 2007 and 2008, WMC did not solicit bids or properly advertise the need and award for these services as required. Payments to this vendor totaled approximately $71,000 during fiscal year 2008. We commented upon this same vendor and condition in our preceding audit report.

State Procurement Regulations generally require that responsive bids or acceptable offers from at least two vendors be obtained for procurements over $5,000 and that, for procurements over $15,000, the solicitation of bids be in writing. Furthermore, these regulations maintain that a noncompetitive negotiated procurement of human services (such as the aforementioned psychological services) may be used for residential rehabilitation services, if the procuring agency advertises its general requirements for services, requests interested service providers to respond with written general expressions of interest, and the award of the service, regardless of the amount, is subsequently publicized. Similar conditions were commented upon in our preceding audit report.

Recommendation 4
We recommend that WMC comply with State Procurement Regulations when procuring goods and services (repeat).

Finding 5
Proper internal controls were not established over the processing of certain purchasing transactions.

Analysis
Proper internal controls were not established over the processing of certain purchasing transactions on the State's Financial Management Information System (FMIS). Specifically, WMC's established online approval rules allowed nine individuals with the capability to initiate purchase orders to also make changes to those transactions after independent approvals were obtained. Consequently, the aforementioned individuals had the capability to make unauthorized changes to critical purchase information (such as vendor names and amounts) without those changes being subject to independent approval.

Although these individuals were not employees of WMC, but worked for other DHMH units, it is incumbent upon WMC, in conjunction with appropriate DHMH personnel, to ensure that adequate controls are established over WMC

transactions. According to the State's accounting records, during fiscal year 2009, WMC used FMIS to process disbursements totaling approximately $4.1 million, of which $2 million related to purchase orders.

Recommendation 5
We recommend that WMC, in conjunction with appropriate DHMH personnel, establish approval requirements that prevent individuals with the capability to initiate purchasing transactions from modifying the transactions after related approvals have been obtained.

Finding 6
WMC did not consistently comply with certain corporate purchasing card requirements.

Analysis
WMC did not consistently comply with certain approval requirements for corporate purchasing card (CPC) purchases. Consequently, there was a lack of assurance that all card transactions were for authorized purposes. Our test of 20 CPC transactions, totaling approximately $20,000, that were made during our audit period disclosed that WMC did not comply with required policies for 16 transactions. Specifically, the activity logs for 5 transactions, totaling $6,300, were not approved by both the WMC's fiscal officer and the cardholder's immediate supervisor, as required; in each case, only one approval was obtained. In addition, approved requisitions were not on file for 13 transactions tested totaling $12,000, although we were advised this was WMC policy.

The Comptroller of Maryland's *Corporate Purchasing Card Program Policy and Procedures Manual* requires that cardholder activity logs be reviewed and approved by supervisory personnel and the agency's fiscal officer. WMC policy requires each purchase to be pre-authorized, and we were advised that an approved requisition should be prepared and approved to document this authorization. During fiscal years 2008 and 2009, CPC purchases made by WMC totaled approximately $578,000 and $250,000 respectively.

Recommendation 6
We recommend that WMC

a. ensure that CPC activity logs are properly approved, as required by the *Corporate Purchasing Card Program Policy and Procedures Manual;* and
b. ensure that approved requisitions are prepared and maintained for credit card purchases in accordance with WMC's policy.

Audit Scope, Objectives, and Methodology

We have audited the Western Maryland Center (WMC) of the Department of Health and Mental Hygiene for the period beginning June 5, 2006 and ending June 30, 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 WMC'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 include cash receipts, patient and working funds, procurement and disbursements, pharmaceuticals, payroll, and equipment. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of WMC 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.

Our audit did not include billing and collection support services provided to WMC by Deer's Head Center for renal dialysis and by Department of Health and Mental Hygiene's (DHMH) Division of Reimbursement for inpatient/outpatient care services. These support services are included in the scope of our audits of the Deer's Head Center and DHMH Office of the Secretary.

WMC'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 that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect WMC'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 WMC that did not warrant inclusion in this report.

The response from the Department of Health and Mental Hygiene, on behalf of WMC, 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 22, 2010

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 Western Maryland Center for the period beginning June 5, 2006 and ending June 30, 2009. 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 Department's Office of the Inspector General (OIG), 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 V. Russell, Inspector General, at 410-767-5862.

Sincerely,

John M. Colmers
Secretary

Enclosure

cc: Frances B. Phillips, R.N., M.H.A., Deputy Secretary for Public Health Services
Russell W. Moy, M.D., M.P.H., Director, FHA, DHMH
Thomas V. Russell, Inspector General, DHMH
Ellwood L. Hall Jr., Assistant Inspector General, DHMH
Cindy Pellegrino, Director, Western Maryland Center

Findings and Recommendations

Finding 1
The Western Maryland Center (WMC) did not refer for further investigation a case of alleged theft of controlled dangerous substances as required by Executive Order, and did not have comprehensive policies and procedures over the destruction of such substances.

Recommendation 1
We recommend that WMC

a. report all instances of possible criminal or unethical conduct, including the aforementioned instance, as required;
b. establish a formal policy regarding the frequency of CDS destructions and the volume to be held prior to destruction;
c. ensure that CDS are destroyed consistent with the established policy; and
d. record all critical information relating to CDS destruction, including when the CDS were first designated for destruction, the reason for destruction, and the individual initially recording the CDS for destruction.

Administration's Response:
WMHC concurs with the recommendation.

a. WMC will report all instances of possible criminal or unethical conduct, including the alleged theft of controlled dangerous substances, in accordance to the Governor's Executive Order.
b. The "Controlled Substance" policy has been reviewed and revised, with the following updates, to address the items as recommended. When CDS needs to be destroyed, the unit nurse will immediately notify the shift leader of the need for disposal. The unit nurse will document on the Resident Controlled Substance Record:
    - date;
    - time;
    - quantity of medications to be destroyed;
    - reason the destruction is needed; and
    - signature of the unit nurse relinquishing the medication.

    The shift leader will then verify the count of the medications needing destruction, and will secure the medications along with the Residents Control Substance Record under double lock. The shift leader will document on the DHMH form 1472, Controlled Dangerous Substance Disposition Report, the following information:
    - dosage form;
    - quantity;
    - drug;
    - strength;
    - prescription Number;
    - pharmacy; and
    - resident Identification (initials).

This record will remain in the shift leader's office until the destruction occurs. Shift leaders will count at every shift change all medications needing destruction and document on the Narcotic Drug Monitoring form. These forms will be maintained in the DON office for two years.

c. Guidelines have been established for the destruction of CDS. This function will take place every two months or up to the maximum amount of 20 items. During the destruction process, two shift leaders and a representative from security will conduct the procedure of destroying the medication. During the process of destruction, the two shift leaders and security officer will witness the process and document the following information:
   - name of medication;
   - dosage form;
   - quantity;
   - strength;
   - prescription number;
   - pharmacy;
   - resident's identification;
   - method of destruction; and
   - signatures.

d. The destruction records will be documented as stated above in item (c) and be maintained for a period of two years, and copies will be sent to DHMH Division of Drug Control. All staff will be educated in this process.

Finding 2
WMC lacked certain controls over patient and working funds, and control procedures in place were not always utilized.

Recommendation 2
We recommend that employees who maintain the patient and working fund records not be authorized to sign checks and receive or otherwise handle collections;
a. all checks be signed by two authorized individuals as required by WMC policy; and
b. all receipts be verified to deposit by personnel independent from the cash receipts process, and that this verification be documented.

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

Administration's Response:
WMHC concurs with the recommendations.
a. The Patient Funds Custodian is no longer authorized to sign checks, receive collections, or reconcile the detail and bank records. An Office Services Clerk, independent of patient funds, will receive collections and an independent party will reconcile the detail and bank records. While this was an oversight, we are now ensuring all checks have two signatures.

b. The Chief Financial Officer who is independent of cash receipts is verifying the receipts to the deposit and initialing both documents.

Finding 3
WMC made certain questionable disbursements which were not budgeted or approved by DHMH.

Recommendation 3
We recommend that WMC

a. in conjunction with DHMH, investigate the aforementioned disbursements to determine whether there was any misuse of State funds; and
b. ensure that State funds are spent only for authorized purposes, and that working fund disbursements are made only for the purposes specified by the Comptroller.

Administration's Response:
WMHC concurs with recommendation

a. In conjunction with DHMH, an investigation of the aforementioned disbursements will be done to determine whether there was any misuse of State funds.
b. Since the audit, WMC has been ensuring all working funds' disbursements meet the criteria stipulated by the *Accounting Procedures Manual*.

Finding 4
WMC did not always obtain competitive bids when procuring goods and services, as required by State Procurement Regulations.

Recommendation 4
We recommend that WMC comply with State Procurement Regulations when procuring goods and services (repeat).

Administration's Response:
WMC concurs with the recommendation and is now consistently complying with State Procurement Regulations when procuring goods and services.

Finding 5
Proper internal controls were not established over the processing of certain purchasing transactions.

Recommendation 5
We recommend that WMC, in conjunction with appropriate DHMH personnel, establish approval requirements that prevent individuals with the capability to initiate purchasing transactions from modifying the transactions after related approvals have been obtained.

Administration's Response:
WMC concurs with the recommendation. On March 23, 2010, DHMH's Fiscal Services has changed the level of approval from the 500 level to the 600 level giving the final approval to WMC.

Finding 6
WMC did not consistently comply with certain corporate purchasing card requirements.

Recommendation 6
We recommend that WMC

a. ensure that CPC activity logs are properly approved, as required by the *Corporate Purchasing Card Program Policy and Procedures Manual;* and
b. ensure that approved requisitions are prepared and maintained for credit card purchases in accordance with WMC's policy.

Administration's Response:

a. WMC concurs with this recommendation and is now ensuring all cardholder activity logs are reviewed and verified and ensuring that no signatures are overlooked, as well as ensuring all needed documentation is maintained.

b. WMC concurs with this recommendation and is now ensuring purchases have prior approved requests for purchases attached. However, with the newly implemented BPW Advisory No. 1998-1, increasing the single purchase rate to $5,000 and requiring all vendors who will accept credit cards be paid with such, any regular monthly payments or any invoices considered to be a Direct Voucher will have an approval signature, but not a Request for Purchase.

AUDIT TEAM

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