Audit Report

Maryland Department of Health
Laboratories Administration

April 2020

OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

To Obtain Further Information

Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, Maryland 21201
Phone: 410-946-5900 · 301-970-5900 · 1-877-486-9964 (Toll Free in Maryland)
Maryland Relay: 711
TTY: 410-946-5401 · 301-970-5401
E-mail: OLAWebmaster@ola.state.md.us
Website: www.ola.state.md.us

To Report Fraud

The Office of Legislative Audits operates a Fraud Hotline to report fraud, waste, or abuse involving State of Maryland government resources. Reports of fraud, waste, or abuse may be communicated anonymously by a toll-free call to 1-877-FRAUD-11, by mail to the Fraud Hotline, c/o Office of Legislative Audits, or through the Office's website.

Nondiscrimination Statement

The Department of Legislative Services does not discriminate on the basis of age, ancestry, color, creed, marital status, national origin, race, religion, gender, gender identity, sexual orientation, or disability in the admission or access to its programs, services, or activities. The Department's Information Officer has been designated to coordinate compliance with the nondiscrimination requirements contained in Section 35.107 of the United States Department of Justice Regulations. Requests for assistance should be directed to the Information Officer at 410-946-5400 or 410-970-5400.

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

April 10, 2020

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Carol L. Krimm, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Laboratories Administration of the Maryland Department of Health (MDH) for the period July 1, 2015 and ending January 7, 2020. The Administration provides laboratory testing to assist physicians and health officials in the prevention, diagnosis, and control of human diseases.

Our audit disclosed that the Administration did not establish adequate controls over check collections, which totaled approximately $6.5 million during fiscal year 2019.

Our audit also included a review to determine the status of one of the two findings contained in our preceding audit report. We determined that the Administration satisfactorily addressed this finding. The status of the remaining finding will be reviewed during our audit of MDH – Prevention and Health Promotion Administration.

MDH's response to this audit, on behalf of the Administration, is included as an appendix to this report. We reviewed the response to our finding and related recommendations, and have concluded that the corrective actions identified are sufficient to address all audit issues.

We wish to acknowledge the cooperation extended to us during the audit by the Administration. We also wish to acknowledge MDH's and the Administration's willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

Gregory A. Hook

Gregory A. Hook, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Laboratories Administration, a unit of the Maryland Department of Health (MDH), is responsible for providing laboratory testing to assist physicians and health officials in the prevention, diagnosis, and control of human diseases. To ensure the quality of laboratory services, the Administration develops standards and regulations for medical laboratories, tissue banks, and physician office laboratories. It also provides laboratory data for environmental safety and enforcement of environmental protection laws. According to the State's records, during fiscal year 2019, the Administration's central laboratory in Baltimore City and its two regional laboratories conducted approximately 9.3 million laboratory tests, and the Administration's expenditures totaled approximately $46.5 million.

Organizational Change

Effective November 2015, MDH transferred the Division of Drug Control (DDC) from the Laboratories Administration to MDH – Prevention and Health Promotion Administration (PHPA). The activities of DDC were not included in this audit. Instead, the activities of DDC will be included in a separate audit of PHPA.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of one of the two findings contained in our preceding audit report dated March 25, 2016. We determined that the Administration satisfactorily addressed this finding (Finding 1). Our audit did not include a review of the status of the remaining finding contained in our preceding audit report that related to controls over issuance of controlled dangerous substance permits and related collections (Finding 2); the status of this finding will be addressed during our audit of PHPA.

Findings and Recommendations

Cash Receipts

Finding 1
The Laboratories Administration did not establish controls to ensure all collections were deposited, and checks were safeguarded after remote deposit.

Analysis
The Laboratories Administration did not establish controls to ensure all collections were deposited, and checks were safeguarded after remote deposit. The Administration received checks in the mail and in person, primarily for payment of lab fees. According to the Administration's records, during fiscal year 2019, check receipts collected totaled approximately $6.4 million, which were all processed using a remote deposit system, a process that scans the images of checks and electronically transmits those images to the bank for deposit.

- Deposit verifications performed were not effective since the employee who initially recorded collections on a check log did not provide a copy of the log directly to the employee responsible for verifying recorded collections to deposit. Instead, the check log and the related checks were forwarded first to an employee who prepared the remote deposit. As a result, unauthorized changes could be made to the check log that would not be detected by the employee responsible for verifying the recorded checks to validated bank deposit documentation.

- Checks were not safeguarded after remote deposit. Checks were maintained in an unlocked drawer accessible to multiple employees. In addition, certain deposited checks were retained longer than the required 30-day period.

The Comptroller of Maryland's *Accounting Procedures Manual* requires that a reconciliation of recorded collections from the initial point of recordation to amounts deposited be performed by an employee independent of the cash receipts function. Additionally, the Office of the State Treasurer's *Policy on the Use of Remote Deposit Services by Maryland State Agencies* requires that deposited checks be stored in a secure location for no longer than 30 days before destruction.

Recommendation 1
We recommend that the Administration

a. **ensure that the initial record of checks received, or a copy thereof, is given directly to the independent employee responsible for verifying that all recorded collections were deposited; and**
b. **ensure that checks processed through the bank's remote deposit system are safeguarded and are destroyed in a timely manner as required by the State Treasurer's *Policy*.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Laboratories Administration of the Maryland Department of Health (MDH) for the period beginning July 1, 2015 and ending January 7, 2020. 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 the Administration's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included cash receipts, accounts receivable, payroll, and purchases and disbursements. We also determined the status of the one of the two findings contained in our preceding audit report. We will determine the status of the remaining finding during our audit of MDH – Prevention and Health Promotion Administration.

Our audit did not include certain support services provided to the Administration by the Department's Office of the Secretary. These support services (such as payroll, maintenance of accounting records, and related fiscal functions) are included within the scope of our audit of the Office of the Secretary. Our audit also did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs and an assessment of the Administration's compliance with those laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including the Administration.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of the Administration's operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We also extracted data from the Administration's financial systems for the purpose of testing certain areas, such as accounts receivable. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during this audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

The Administration'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. As provided in Government Auditing Standards, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to the Administration, were considered by us during the course of this audit.

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 a finding relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect the Administration's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Other less significant findings were communicated to the Administration that did not warrant inclusion in this report.

The response from MDH, on behalf of the Administration, 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 MDH regarding our review of its response.

Maryland
DEPARTMENT OF HEALTH

Larry Hogan, Governor · Boyd K. Rutherford, Lt. Governor · Robert R. Neall, Secretary

April 7, 2020

Mr. Gregory A. Hook, CPA
Legislative Auditor
Office of Legislative Audits
State Office Building, Room 1202
301 West Preston Street
Baltimore, MD 21201

Dear Mr. Hook:

Enclosed are the responses to the draft audit report from your Maryland Department of Health (MDH) – Laboratories Administration from the period beginning July 1, 2015 and ending January 7, 2020.

If you have any questions, please contact Frederick D. Doggett at 410-767-0885 or email at frederick.doggett@maryland.gov.

Sincerely,

Robert R. Neall, Secretary
Maryland Department of Health

cc: Frances Phillips, Deputy Secretary for Public Health Services, MDH
Robert A. Myers, Ph.D. Director Laboratories Administration, MDH
Frederick D. Doggett, Inspector General, MDH

Maryland Department of Health
Laboratories Administration

Agency Response Form

Cash Receipts

Finding 1 **The Laboratories Administration did not establish controls to ensure all collections were deposited, and checks were safeguarded after remote deposit.**

We recommend that the Administration

a. **ensure that the initial record of checks received, or a copy thereof, is given directly to the independent employee responsible for verifying that all recorded collections were deposited; and**

b. **ensure that checks processed through the bank's remote deposit system are safeguarded and are destroyed in a timely manner as required by the State Treasurer's *Policy*.**

Agency Response			
Analysis	**Factually Accurate**		
Please provide additional comments as deemed necessary.			
Recommendation 1a	Agree	**Estimated Completion Date:**	2/24/20
Please provide details of corrective action or explain disagreement.	The initial record of checks received will be printed after checks are logged and documented by the Procurement officer and a signed copy will be given to the Billing Supervisor who is responsible for verifying that all collections were deposited and documented. The log will then be reconciled with the log receipt from the Budget Specialist who is responsible for depositing all checks.		
Recommendation 1b	Agree	**Estimated Completion Date:**	2/24/20
Please provide details of corrective action or explain disagreement.	A schedule of deposited checks will be kept and reviewed periodically, and checks will be destroyed 30 days or less after deposit. Checks processed through the bank's remote deposit system will be secured and locked in a cabinet.		

Audit Team

Mark S. Hagenbuch, CPA
Audit Manager

Amanda M. Jones
Senior Auditor

Shantasia S. Johnson
Staff Auditor