Audit Report

Department of Health and Mental Hygiene
Deer's Head Center

July 2008



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

- This report and any related follow-up correspondence are available to the public through the Office of Legislative Audits at 301 West Preston Street, Room 1202, Baltimore, Maryland 21201. The Office may be contacted by telephone at 410-946-5900, 301-970-5900, or 1-877-486-9964.
- Electronic copies of our audit reports can be viewed or downloaded from our website at http://www.ola.state.md.us.
- Alternate formats may be requested through the Maryland Relay Service at 1-800-735-2258.
- The Department of Legislative Services – Office of the Executive Director, 90 State Circle, Annapolis, Maryland 21401 can also assist you in obtaining copies of our reports and related correspondence. The Department may be contacted by telephone at 410-946-5400 or 301-970-5400.

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

Bruce A. Myers, CPA
Legislative Auditor

July 14, 2008

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 Deer's Head Center (DHC) of the Department of Health and Mental Hygiene for the period beginning April 1, 2005 and ending January 13, 2008.

DHC did not adequately control the accounts receivable related to its kidney dialysis program. For example, DHC did not always bill insurers for services provided or record the related receipts in a timely manner. In addition, DHC did not take any actions to collect delinquent accounts receivable during the audit period, and did not adequately reconcile the records or document amounts recorded as accrued revenues.

Our audit also disclosed that DHC did not always follow State Procurement Regulations for procurements of certain goods and services. For example, DHC procured certain goods without soliciting competitive bids, without obtaining required State control agency authorizations, and without executing written contracts, as required.

Finally, the audit disclosed various internal control weaknesses and other procedural deficiencies in the areas of cash receipts, accounts receivable, invoice payments, and equipment.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Table of Contents

Executive Summary 5

Background Information 7

Agency Responsibilities 7
Status of Findings From Preceding Audit Report 7

Findings and Recommendations 9

Kidney Dialysis Unit
Finding 1 – DHC Did Not Process Billings or Record the Related Receipts in a Timely Manner 9
Finding 2 – DHC Did Not Take Appropriate Action to Collect Delinquent Accounts 10
Finding 3 – Internal Controls Over Receivables and the Related Receipts Were Not Adequate 11
Finding 4 – Records Were Not Reconciled and Accrued Revenues Were Not Adequately Documented 12

Contracts and Competitive Bidding
Finding 5 – DHC Did Not Always Follow State Procurement Regulations for Procurements of Goods and Services 13

Vendor Payments
Finding 6 – DHC Did Not Ensure That Invoices Were Reviewed and Approved Prior to Payment 14

Equipment
Finding 7 – Equipment Inventories Were Not Conducted as Required 15

Audit Scope, Objectives, and Methodology 17

Agency Response Appendix

Executive Summary

Legislative Audit Report on DHMH - Deer's Head Center (DHC)
July 2008

- **Internal controls and record keeping procedures over DHC's kidney dialysis services were inadequate. For example, DHC did not always bill insurers and patients or record the related collections in a timely manner. Also, DHC did not take appropriate actions to collect amounts due from outstanding accounts. In this regard, as of February 14, 2008, accounts over 91 days old totaled $1.5 million.**

  DHC should process billings for services and record the related receipts in a timely manner. In addition, DHC should pursue delinquent accounts in accordance with the Department of Budget and Management - Central Collection Unit's regulations.

- **DHC did not always seek competitive bids for procurements of goods. We identified five vendors, which were paid $1.4 million during our audit period, from which DHC consistently procured supplies without obtaining bids, entering into contracts, or obtaining State control agency approvals.**

  DHC should solicit bids for procurements of goods that can reasonably be expected to exceed State Procurement Regulation dollar limits that require competitive bids. In addition, DHC should execute formal written contracts and obtain required control agency authorizations.

- **DHC did not always review and manually approve invoices before payment, and payments to one vendor for patient medication were not compared to the related contract to ensure that DHC received appropriate discounts.**

  DHC should ensure that all invoices are reviewed and approved prior to payment, and that amounts paid are in compliance with contractual provisions.

Background Information

Agency Responsibilities

The Deer's Head Center (DHC), which is located in Salisbury, Maryland, provides chronic care and treatment to patients requiring a hospital-level rehabilitation program, long-term nursing home care, and inpatient and outpatient kidney dialysis services. During fiscal year 2007, DHC had a licensed capacity of 146 inpatients, a budgeted average daily population of 81 inpatients, and an actual average daily population of 81 inpatients; DHC's dialysis unit also provided 15,932 dialysis treatments to 182 patients. DHC is accredited by the Joint Commission on Accreditation of Healthcare Organizations. According to the State's records, during fiscal year 2007, DHC expenditures totaled approximately $21.9 million.

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 July 8, 2005. We determined that DHC satisfactorily addressed these findings.

Findings and Recommendations

Kidney Dialysis Unit

Background

DHC provides inpatient and outpatient kidney dialysis services. DHC bills patients' insurers for the cost of services provided (including the costs of drugs used in dialysis treatments). In most cases, DHC receives less than the actual cost of services since insurers will generally pay a portion of a predetermined rate developed under the federal Medicare Program that is less than the actual calculated costs. DHC will also bill secondary insurers or the patient for the predetermined rate not paid by the primary insurer. DHC uses an automated system to track services provided, generate the related accounts receivable billings, and maintain the accounts receivable records. In addition, DHC staff, using the same processes and accounts receivable system, bills for renal dialysis services provided by the Western Maryland Center (WMC) and maintains the related records for these accounts. According to agency records applicable to DHC accounts, collections for dialysis services for fiscal year 2007 totaled $3.3 million and, as of February 14, 2008, the aggregate balance of the detail accounts for DHC and WMC receivable totaled $5.5 million.

Finding 1
DHC did not process billings and record the related receipts in a timely manner.

Analysis

DHC did not prepare initial billings for dialysis services or record the related receipts in a timely manner as required by DHC policy. DHC policy requires that all services be billed within five days after the close of the month that the services are provided and all collections received be posted to the applicable patient's account within three working days of receipt. Our test of billing activity during fiscal years 2007 and 2008 disclosed the following conditions:

- Billings were not prepared timely. Specifically, our test of 30 billings (totaling $166,000) disclosed that the billings were prepared from 26 to 196 days after the end of the month in which the related services were provided. All 30 bills were prepared late; 13 were processed 90 or more days after the end of the month the related services were provided.

- Our test of 29 receipts, totaling $56,400, disclosed that 26 receipts, totaling $54,300, were not posted to the applicable patient's accounts receivable records timely. Specifically, 19 receipts were posted to the related detail

accounts from 10 to 157 days after receipt. The seven other receipts had not been posted to the detail accounts receivable records even though, as of February 28, 2008, the related funds had been received and deposited by DHC 24 to 121 days earlier.

Recommendation 1
We recommend that DHC prepare billings and record receipts in a timely manner in accordance with its policy.

Finding 2
DHC did not take appropriate action to collect outstanding accounts.

Analysis
Collection procedures for delinquent accounts were not sufficient as DHC frequently did not send overdue notices to debtors or forward accounts to the Department of Budget and Management - Central Collection Unit (CCU) in a timely manner. As of February 14, 2008, according to DHC's records, DHC and WMC accounts receivable outstanding 91 or more days totaled approximately $1.5 million. Our review of 15 accounts, with balances totaling $534,000, disclosed the following conditions:

- Eight accounts, with balances totaling $309,000, for which DHC had not made any collection efforts beyond the initial billing (that is, no subsequent written demands for payment or referral to CCU) even though the related balances had been outstanding for periods ranging from 6 to 54 months.

- Four accounts totaling $103,067, for which balances had been outstanding for up to 13 months, even though the billed entity was either the federal Medicare Program or State's Medical Care Program Administration. DHC officials advised that the delinquent status of these four accounts was probably due to the failure to record the related payments to the patient's account (see Finding 1).

- Two accounts, with balances totaling $17,364, for which the ultimate collectability appears questionable because the secondary insurer either has a maximum payment cap or will not pay amounts above those paid by the primary insurer.

- One account, with a balance of $1,849, where DHC had not yet billed the secondary insurer for periods ranging from 7 to 55 months after receiving payments from the primary insurer.

CCU regulations generally require that three written demands for payment be made on accounts at 30-day intervals, and that delinquent accounts be transferred to CCU for further collection action 75 days after the initial request for payment.

Recommendation 2
We recommend that DHC strictly comply with the aforementioned regulations of the Central Collection Unit and pursue collection of accounts with secondary insurers.

Finding 3
Internal controls over accounts receivable and related cash receipts were not adequate.

,

Analysis
Internal controls over the kidney dialysis accounts receivable and related cash receipts were not adequate. Specifically, we noted the following conditions:

- Nine userids, including one for the employee who initially received and logged the related cash receipts, had access to the automated detail accounts receivable records and could process non-cash credit adjustments. These nine userids included seven assigned to DHC employees, one for the software vendor and a generic userid for DHC, which we were advised was not used. Also, adjustments to the accounts receivable records were not reviewed for propriety or approved by supervisory personnel. Since most insurers and secondary insurers pay predetermined rates for services, many billings will result in a non-cash credit adjustment. Consequently, DHC lacked assurance regarding the propriety of such adjustments recorded in the detail patient accounts.

- DHC did not periodically generate and review system security reports to ensure that user access to the automated accounts receivable records was proper. As a result, DHC lacked assurance that user access was only granted to employees who required such access to perform their job duties. Our review of the aforementioned nine userids that had complete access to the accounts receivable records disclosed that userids for three DHC employees, including the employee responsible for processing cash receipts, did not require such access to perform their assigned duties. In addition, complete system access could be obtained through the use of a userid not assigned to a specific DHC employee and through the userid assigned to the system vendor.

Recommendation 3

We recommend that employees with access to cash receipts not have access to the related accounts receivable records or be given the ability to process non-cash credit adjustments. We further recommend that the propriety of the non-cash credit adjustments be verified, at least on a test basis, by a supervisory employee who cannot process non-cash credits adjustments. In addition, we recommend that DHC periodically ensure that access is only granted to those employees who require such access to perform their assigned job duties. Finally, we recommend that the use of general user accounts be discontinued.

Finding 4

Adequate record keeping procedures were not established as accounts receivable records were not reconciled and accrued revenues recorded at fiscal year end were not adequately documented.

Analysis

Record keeping procedures were not adequate over the Kidney Dialysis Units accounts receivable in that reconciliations were not performed and accrued revenues could not be substantiated. Specifically, we noted the following conditions:

- DHC did not periodically reconcile the aggregate balance of the detail accounts receivable records with the related control account during the audit period. As of February 14, 2008, the balance in the control account ($6 million) exceeded the aggregate balance of the related detail records ($5.5 million) by $500,000; however, without a documented reconciliation the nature of the difference cannot be ascertained.

- DHC did not maintain adequate supporting documentation for accrued special fund revenues totaling $1.7 million at June 30, 2007. In this regard, detailed documentation such as specific unpaid billings at June 30 was not used to determine accrued revenues. Instead, the accrual was estimated by subtracting total fiscal year special fund revenues received and credited to that year from total special fund expenditures at year end, as recorded in the State's accounting records. As related to the fiscal year 2007 accrual, $1.7 million in revenue was not collected until December 2007, which is much later than the 60-day period in which the revenues should be accrued according to State procedures. To the extent that revenues are not available for these accruals, general fund appropriations (or deficiency appropriations) may be needed to eliminate any resulting deficits.

The closing instructions provided by the Comptroller of the Treasury's General Accounting Division require that revenue should be accrued only when revenues are measurable and available (collectible within 60 days of the end of the fiscal year). The instructions also require that agencies maintain proper detail documentation to support accounting entries recorded as accrued revenue.

Recommendation 4
We recommend that DHC reconcile the aggregate balance of the detail accounts receivable records with the balance of the related control account on a monthly basis and that any differences identified by the reconciliations be promptly investigated and resolved. We also recommend that DHC ensure that all accrued revenues are recorded and supported in accordance with State policy. Finally, we recommend that DHC, in conjunction with the Department of Health and Mental Hygiene, ascertain if a deficit exists within the dialysis program and take appropriate action to resolve any deficit.

Contracts and Competitive Bidding

Finding 5
DHC did not always follow State Procurement Regulations for procurements of goods and services.

Analysis
DHC did not procure certain goods and services in accordance with State Procurement Regulations. Specifically, we identified the following conditions:

- DHC made frequent purchases of medical supplies from five vendors without soliciting bids, entering into formal contracts, or obtaining required State control agency approvals (that is, the Department of General Services). Although many of the individual invoices were below $2,500 (the level of small procurements that requires bids), payments to these five vendors (which ranged from $135,000 to $705,000 during our audit period) totaled $1.4 million during that period. For one of these vendors, we noted that prices paid were often substantially higher than prices for similar items from another of the vendors. For example, our review of five invoices totaling $28,400 paid to this vendor in fiscal years 2007 and 2008 disclosed that similar items were available from another vendor for $16,600, a potential savings of $11,800. In addition, DHC procured services for certain temporary nursing staff without soliciting bids and entering into a contract. For the audit period, DHC paid this vendor $407,000.

- DHC awarded sole source contracts to two vendors for services without preparing written justification for the sole source procurement. DHC paid these two vendors $112,000 and $120,000, respectively, during our audit period.

The State Procurement Regulations require all procurements exceeding $2,500 be solicited for bid and at least two responsive bids should be obtained. Additionally, the Regulations require that procurements exceeding $2,500 must be supported by written contracts, and there must be written justification for all sole source awards. The Regulations further require that State agencies submit all commodities procurements over $25,000 to the Department of General Services for review and approval.

Recommendation 5
We recommend that DHC comply with the requirements of the State Procurement Regulations. Specifically, we recommend that DHC consolidate and procure medical supplies on the basis of competitive bids to ensure that these goods are obtained at the lowest available costs. We further recommend that DHC execute formal written contracts with the vendors from which medical supplies are purchased, and request applicable State control agency authorizations. Finally, we recommend that DHC document the reasons for sole source procurements.

Vendor Payments

Finding 6
DHC did not ensure that certain invoices for services and goods were reviewed and manually approved prior to payment.

Analysis
DHC did not always review and manually approve certain invoices prior to payment. Our test of 27 invoices totaling $790,000 disclosed that 6 invoices totaling $109,000 were not approved in writing by a supervisor in the applicable department prior to payment. In addition, for 2 of the 27 test items, the approved invoices were from a pharmaceutical vendor and were paid without DHC ensuring that the invoice included contractually-required drug discounts. Our review of 119 items totaling $19,000 billed on the pharmaceutical vendor's June 2007 invoice disclosed that DHC was overcharged (that is, not given the proper discount) for 46 items. While the overcharges in this case only totaled $249, the failure to routinely review invoices to ensure proper pricing could lead to more

significant overpayments. Payments to this specific pharmaceutical vendor totaled $1.4 million during the audit period.

The Comptroller of the Treasury's *Accounting Procedures Manual* requires that invoices be approved by an authorized representative indicating prices, extensions, and additions have been verified and the merchandise had been received or the services rendered, and the payment had not been previously paid.

Recommendation 6
We recommend that DHC establish a process to ensure that all invoices are reviewed and approved by a supervisor in the applicable department prior to payment. In addition, we recommend that DHC, at least on a test basis, verify the prices of items billed to the prices established in the contract. We further recommend that DHC conduct a review of prior invoices from the aforementioned pharmaceutical vendor and determine the extent of overcharging and pursue recovery of all related amounts.

Equipment

Finding 7
Equipment inventories were not conducted at required intervals.

Analysis
DHC did not conduct physical inventories as required by the Department of General Services' *Inventory Control Manual*, which prescribes the procedures and equipment recordkeeping requirements to be followed by State agencies. Specifically, DHC had not conducted a physical inventory of sensitive and non-sensitive equipment since April 2004, even though such physical inventories are required annually and every three years, respectively. According to its records, the DHC equipment inventory balance totaled $3.1 million as of December 31, 2007.

Recommendation 7
We recommend that DHC conduct physical inventories as required by the *Inventory Control Manual*.

Audit Scope, Objectives, and Methodology

We have audited the Deer's Head Center (DHC) of the Department of Health and Mental Hygiene for the period beginning April 1, 2005 and ending January 13, 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 DHC'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 DHC'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.

DHC provides certain support services (billing and collection for renal dialysis services) to the Department of Health and Mental Hygiene – Western Maryland Center. These support services are included with the scope of our audit of DHC.

Our audit scope was limited with respect to certain of DHC's cash transactions because the Office of the State Treasurer was unable to reconcile the State's main bank accounts during a portion of the audit period. Due to this condition, we were unable to determine, with reasonable assurance, that all DHC cash transactions prior to July 1, 2005 were accounted for and properly recorded on the related State accounting records as well as the banks' records.

DHC'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 DHC'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 DHC that did not warrant inclusion in this report.

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

July 10, 2008

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 Deer's Head Hospital Center beginning April 1, 2005 and ending January 13, 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 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 Russell of my staff at 410-767-5862.

Sincerely,

John M. Colmers
Secretary

Enclosure

cc: Arlene Stephenson, Acting Deputy Secretary, PHS, DHMH
Valerie A. Roddy, Assistant Director to Deputy Secretary, PHS, DHMH
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
Sandy K. Smith, R.N., Director/CEO, Deer's Head Hospital Center

Findings and Recommendations

Kidney Dialysis Unit

Finding 1
DHHC did not process billings and record the related receipts in a timely manner.

Recommendation 1
We recommend that DHHC prepare billings and record receipts in a timely manner in accordance with its policy.

Administration's Response:
We concur with the recommendation. As of April 23, 2008, DHHC has been up-to-date on posting of payments to the appropriate accounts and will continue to post payments in a timely manner in accordance with its policy. DHHC will work towards the five-day from month end billing policy with a target month of October 2008, to be fully implemented.

Finding 2
DHHC did not take appropriate action to collect outstanding accounts.

Recommendation
We recommend that DHHC strictly comply with the aforementioned regulations of the Central Collection Unit and pursue collection of accounts with secondary insurers.

Administration's Response:
We concur with the recommendation. Effective immediately, DHHC will follow the guidelines for collection procedures for delinquent accounts. After three demands at 30-day intervals, DHHC will forward the claim to CCU, and will also timely pursue collection of accounts with secondary insurers.

Finding 3
Internal controls over accounts receivable and related cash receipts were not adequate.

Recommendation
We recommend that employees with access to cash receipts not have access to the related accounts receivable records or be given the ability to process non-cash credit adjustments. We further recommend that the propriety of the non-cash credit adjustments be verified, at least on a test basis, by a supervisory employee who cannot process non-cash credits adjustments. In addition, we recommend that DHHC periodically ensure that access is only granted to those employees who require such access to perform their assigned job duties. Finally, we recommend that the use of general user accounts be discontinued.

Administration's Response:
We concur with the recommendation. As of May 1, 2008, DHHC eliminated the access to the accounts receivables and non-cash adjustments for the employee who receives cash payments. This will resolve the issue of possible misappropriation of cash without detection. Supervisory personnel who cannot process non-cash credit adjustments will also be conducting monthly

reviews of non-cash postings to ensure that all are supported and proper. DHHC is, on a quarterly basis, reviewing system security reports and using these reports to evaluate assigned access privileges effective, June 30, 2008. In conjunction with this quarterly review, DHHC is evaluating the granted access to employees and ensuring that the privileges meet the job duties. Again, in conjunction with the quarterly review, DHHC has also discontinued use of general user account.

Finding 4
Adequate record keeping procedures were not established as accounts receivable records were not reconciled and accrued revenues recorded at fiscal year end were not adequately documented.

Recommendation
We recommend that DHHC reconcile the aggregate balance of the detail accounts receivable records with the balance of the related control account on a monthly basis and that any differences identified by the reconciliations be promptly investigated and resolved. We also recommend that DHHC ensure that all accrued revenues are recorded and supported in accordance with State policy. Finally, we recommend that DHHC, in conjunction with the Department of Health and Mental Hygiene, ascertain if a deficit exists within the dialysis program and take appropriate action to resolve any deficit.

Administration's Response:
We concur with the recommendation. DHHC agrees there is a need to reconcile the detailed accounts receivable records with the balance of the related control accounts on a monthly basis and to investigate and resolve the differences affecting the accounts receivable records. The billing department has begun this analysis and will have completed it in its entirety by September 30, 2008. The KDU billing department has begun printing a monthly report starting with the month of April to reconcile the accounts receivable. This report will be retained for future reference.

DHHC will maintain supporting documentation for the accrual of special fund revenues effective with the closing of FY 08. In reference to the accrued revenue and the question as to whether the Renal Department is in a deficit, DHHC has constructed the following time line showing roadblocks we have encountered the past two years which have contributed to the higher than normal accrual:

- 1/1/06 – Highmark takes over as the subsidiary of Medicare. Highmark assumed the responsibilities without, in our opinion, proper preparation. Highmark, in the beginning, paid claims without proper coding in place on its side. Highmark then corrected the coding problem and retracted all prior paid monies and requested a re-bill for the months paid in error. This caused our staff of two to discontinue current billing in order to adjust prior billing and coincide with Highmark's new coding. This took four months to complete.
- 1/1/07 – Highmark suspends all payments to DHHC due to more coding errors. DHHC was not reimbursed for services for six months. DHHC, as a result, also postpones the secondary revenue that goes along with primary revenue due to the fact it can not bill until primary revenue is received. This was the main factor in the FY 07 accrual of $1.6 million.

- 4/1/07 – DHHC is forced to upgrade current billing system to coincide with Highmark Medicare. HII, the software company issuing the upgrade, could not produce a smooth transition for DHHC. Problems arose from the upgrade which created revenue issues. Software malfunction in getting data produced and transferred from the clinical side to the billing side was the main cause for error. It took nine months to work out all the kinks in the software.

- 9/1/07 – Highmark Medicare switches from the UB92 (billing form) to the UB04. HII was not formatted for this transition and, again, DHHC was not able to bill for three months due to the inability to bill on the properly formatted form. Again, DHHC is left with no revenue intake except for the secondary and tertiary revenue from prior months and was left with a huge catch up project at year end of the current fiscal year.

- 4/29/08 - DHHC feels that its Renal Department is not in a deficit. The timeline shows that several factors have created the revenue issue. Renal revenue is already reviewed monthly and during quarterly projections with the DHMH Budget Management Office. General funds have been allocated to the program for years and will continue to be. These general funds are required due to the inadequacy of the Medicare payments to fully cover costs and the fact that we cannot separately bill for Chronic Hospital inpatients due to our all-inclusive rate. For FY 08, we anticipate a year end accrual of approximately $1.2 million, down significantly from FY07. DHHC feels certain that by Fiscal Year end 2009, it will have shown that the Renal Department is in good financial status, and looks forward to being in accordance with the State policy.

DHHC will continue to work monthly with DHMH Budget Management Office to analyze revenue and expenses to ensure a deficit does not exist.

Contracts and Competitive Bidding

Finding 5
DHHC did not always follow State Procurement Regulations for procurements of goods and services.

Recommendation
We recommend that DHHC comply with the requirements of the State Procurement Regulations. Specifically, we recommend that DHHC consolidate and procure medical supplies on the basis of competitive bids to ensure that these goods are obtained at the lowest available costs. We further recommend that DHHC execute formal written contracts with the vendors from which medical supplies are purchased, and request applicable State control agency authorizations. Finally, we recommend that DHHC document the reasons for sole source procurements.

Administration's Response:
We concur with the recommendation to comply with the requirements of the State Procurement Regulations, including documenting the reasons for sole-source procurements. DHHC agrees that during the periods of late FY 06 – FY 08, it did not take the necessary routes in soliciting bids for frequent medical supply purchases. Effective immediately, DHHC will comply and

agrees that it was unable to provide written justification for using the two vendors in question as a sole source at the time of the audit, but since have acquired the documentation and is available for your review. DHHC uses the State contract with five different temporary nursing staff companies. DHHC does have to use a non-contracted company when all five contracted companies are contacted and unable to supply the nurses needed. This staffing is needed to be in compliance with the regulations of Medicare, Joint Commission and OHCQ.

Vendor Payments

Finding 6
DHHC did not ensure that certain invoices for services and goods were reviewed and manually approved prior to payment.

Recommendation
We recommend that DHHC establish a process to ensure that all invoices are reviewed and approved by a supervisor in the applicable department prior to payment. In addition, we recommend that DHHC, at least on a test basis, verify the prices of items billed to the prices established in the contract. We further recommend that DHHC conduct a review of prior invoices from the aforementioned pharmaceutical vendor and determine the extent of overcharging and pursue recovery of all related amounts.

Administration's Response:
We concur with the recommendations. Effective immediately, DHHC will ensure that all invoices are reviewed and approved by supervisory personnel prior to payment. In addition, DHHC will verify, at least on a test basis, the prices of medication billed agree to the prices established in the contract. Furthermore, DHHC will conduct a review of prior invoices from the pharmaceutical supplier and determine the extent of overcharging, if any, and pursue recovery of all related amounts. A full review of FY 08 bills for discrepancies will be completed by the end of September 2008.

Equipment

Finding 7
Equipment inventories were not conducted at required intervals.

Recommendation
We recommend that DHHC conduct physical inventories as required by the *Inventory Control Manual*.

Administration's Response:
We concur with the recommendation. DHHC agrees that the physical inventories were not conducted at the required intervals. DHHC began both the sensitive and non-sensitive physical inventory in April and completed them on May 15, 2008. DHHC will comply with the Inventory Control Manual and conduct them at the prescribed timeframes.

AUDIT TEAM

Edward L. Shulder, CPA
Audit Manager

Ken H. Johanning, CFE
Senior Auditor

Joseph E. McWilliams
Adam J. Westover, CPA
Staff Auditors