

Audit Report

Maryland Department of Health Chronic Care Hospital Centers

Deer's Head and Western Maryland Hospital Centers

May 2023



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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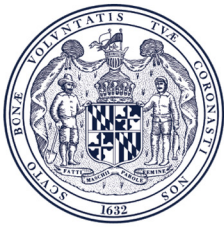
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

May 10, 2023

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, 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 following units of the Maryland Department of Health (MDH) – Deer’s Head Hospital Center (DHHC) for the period beginning June 11, 2018 and ending April 30, 2022 and Western Maryland Hospital Center (WMHC) for the period beginning January 2, 2019 and ending April 30, 2022. These units, collectively referred to as the Chronic Care Hospital Centers (CCHCs), provide chronic care and treatment to patients requiring a hospital-level rehabilitation program, long-term nursing home care, and inpatient and outpatient kidney dialysis services.

In our previous audits of the CCHCs, we issued separate audit reports for DHHC and WMHC. Effective May 31, 2019, the MDH transferred oversight of the CCHCs from the Public Health Administration budgetary unit to the MDH Operations Administration budgetary unit. To promote audit efficiency, we have consolidated our review of the CCHCs into one audit, with our recommendations for the CCHCs being made to the MDH Healthcare System under the MDH Operations Administration.

Our audit disclosed that DHHC did not consolidate procurements which resulted in the failure to maximize its leverage as a high-volume purchaser and the circumvention of certain control agency approvals. For example, DHHC made 380 individual payments to 2 vendors for the rental of beds with specialized hospital mattresses, totaling \$434,700 (for an average purchase of \$1,143). By keeping individual purchases below \$50,000 (its MDH delegated purchase level), DHHC missed the opportunity to maximize its purchasing power and avoided

MDH Office of Contract Management and Procurement (OCMP) oversight and certain approvals, such as the Department of General Services or Board of Public Works, as necessary.

Additionally, the CCHCs had not established adequate controls over the propriety of payroll transactions. For example, the CCHCs were unable to provide documentation that payroll adjustments had been reviewed prior to submission for Statewide Personnel System processing.

Furthermore, we determined that DHHC did not have adequate procedures in place to ensure that all kidney dialysis treatments provided were properly billed to insurers, and did not independently review and approve non-cash credit adjustments to the related accounts receivable records.

Finally, our audit included a review to determine the status of the two findings contained in our preceding report of DHHC and the two findings contained in our preceding audit report of WMHC. We determined that DHHC satisfactorily addressed one finding and the remaining finding is repeated in this report. WMHC satisfactorily addressed both of these findings.

MDH Healthcare System's response to this audit, on behalf of the CCHCs, is included as an appendix to this report. We reviewed the response to our findings 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 course of this audit by the CCHCs. We also wish to acknowledge MDH's and the CCHC's willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive, flowing style.

Gregory A. Hook, CPA
Legislative Auditor

Table of Contents

Background Information	4
Agency Responsibilities	4
Organizational and Audit Approach Changes	5
Status of Findings From Preceding Audit Reports	6
Findings and Recommendations	7
Purchases and Disbursements	
Finding 1 – Deer’s Head Hospital Center (DHHC) did not consolidate the procurement of certain goods and services to maximize its leverage as a high-volume purchaser resulting in the circumvention of certain oversight and did not adequately justify the use of a sole source procurement.	7
Payroll	
Finding 2 – The Chronic Care Hospital Centers had not established adequate controls to ensure the propriety of payroll transactions, including adjustments to employee pay and leave balances.	9
Kidney Dialysis Unit Billing	
* Finding 3 – DHHC did not ensure that responsible third-party insurers were billed for all treatments provided to patients, and did not independently verify the propriety of non-cash credits recorded in the accounts receivable records, since May 2021.	10
Audit Scope, Objectives, and Methodology	12
Exhibit 1 – Listing of Most Recent Office of Legislative Audits Fiscal Compliance Audits of Maryland Department of Health Units in Current Audit Cycle	15
Agency Response	Appendix

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

Background Information

Agency Responsibilities

The Maryland Department of Health (MDH) operates the Deer's Head Hospital Center (DHHC), located in Salisbury, and the Western Maryland Hospital Center (WMHC), located in Hagerstown. Each Center is deemed a Chronic Care Hospital Center (CCHC) since it provides chronic care and treatment to patients requiring a hospital-level rehabilitation program, and longer-term nursing home care. The DHHC also provides inpatient and outpatient kidney dialysis services. The CCHCs are accredited by The Joint Commission, which evaluates and monitors health care organizations nationwide to promote safe, high-quality care, treatment, and services.

During fiscal year 2022, DHHC had a licensed capacity of 146 inpatients, and an average daily population of 42 inpatients. DHHC's dialysis unit also provided 7,449 dialysis treatments to 92 patients. In the same fiscal year, WMHC had a licensed capacity of 123 inpatients, and an average daily population of 42 inpatients. As shown in Figure 1 on the following page, according to the State's records during fiscal year 2022, DHHC and WMHC expenditures totaled approximately \$24.6 million and \$24.2 million, respectively.

Figure 1
DHHC and WMHC Positions, Expenditures, and Funding Sources

	DHHC		WMHC	
Full Time Equivalent Positions as of June 30, 2022				
	Positions	Percent	Positions	Percent
Filled	177	86.3%	173	82.8%
Frozen ¹	1	0.5%	1	0.5%
Vacant	27	13.2%	35	16.7%
Total	205		209	
Fiscal Year 2022 Expenditures				
	Expenditures	Percent	Expenditures	Percent
Salaries, Wages and Fringe Benefits	\$18,222,628	74.0%	\$18,889,566	78.2%
Technical and Special Fees	1,405,471	5.7%	763,591	3.1%
Operating Expenses	4,995,814	20.3%	4,507,331	18.7%
Total	\$24,623,913		\$24,160,488	
Fiscal Year 2022 Funding Sources				
	Funding	Percent	Funding	Percent
General Fund	\$22,278,531	90.5%	\$21,906,409	90.7%
Special Fund	1,941,243	7.9%	214,044	0.9%
Federal Fund	404,139	1.6%	312,331	1.3%
Reimbursable Fund	0	0.0%	1,727,704	7.1%
Total	\$24,623,913		\$24,160,488	

Source: State financial and personnel records

Organizational and Audit Approach Changes

Effective May 31, 2019, MDH transferred oversight of the CCHCs from the Public Health Services budgetary unit to the MDH Operations Administration

¹ Prior to December 1, 2021, a hiring freeze resulted in certain positions being frozen. Frozen positions were unauthorized to be filled according to budgetary instructions from the Department of Budget and Management. Any position that is currently marked as frozen has not been filled since the freeze was lifted; however, these positions now are available to be filled.

budgetary unit. In our previous audits of the CCHCs, we issued separate audit reports for DHHC and WMHC. In response to MDH's change in oversight and to promote audit efficiency, we have consolidated our review of the CCHCs into one audit. Consequently, our audit report recommendations for the CCHCs will be made to the MDH Healthcare System under the MDH Operations Administration.

A listing of the most recent Office of Legislative Audits' fiscal compliance audits of MDH units performed during the current audit cycle can be found in Exhibit 1 of this report.

Status of Findings From Preceding Audit Reports

Our audit included a review to determine the status of the two findings contained in the DHHC audit report, dated March 14, 2019, and the two findings in the WMHC audit report dated June 20, 2019. As disclosed in Figure 2, we determined that the CCHCs collectively satisfactorily addressed three of these findings. The remaining finding related to DHHC is repeated in this report.

Figure 2
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
DHHC		
Finding 1	DHHC allowed a contract with a medical supply vendor to expire prior to initiating a new competitive contract procurement to replace it. For 11 months, DHHC continued to purchase supplies from the vendor at significantly higher prices than provided for in both the expired and subsequent contracts.	Not Repeated
Finding 2	DHHC did not ensure that responsible third-party insurers were billed for all treatments provided to dialysis patients, and did not independently verify the propriety of non-cash credits recorded in the Kidney Dialysis Unit's accounts receivable records.	Repeated (Current Finding 3)
WMHC		
Finding 1	WMHC did not procure fresh produce and certain medical and dietary supplies in accordance with State procurement regulations and Maryland Department of Health policies.	Not Repeated
Finding 2	Supervisory reviews of corporate purchasing card activity did not always ensure that the billed services were received, and did not make use of available Level-3 data to help ensure the propriety of the purchases, as required.	Not Repeated

Findings and Recommendations

Purchases and Disbursements

Background

Deer's Head Hospital Center (DHHC), referred to as a Chronic Care Hospital Center (CCHC), is responsible for procuring its own goods and services. Any goods or services in excess of its delegated authority of \$50,000, must be procured by the Maryland Department of Health (MDH) Office of Contract Management and Procurement (OCMP). DHHC procured goods and services totaling \$6.4 million in fiscal year 2022.

Finding 1

DHHC did not consolidate the procurement of certain goods and services to maximize its leverage as a high-volume purchaser resulting in the circumvention of certain oversight and did not adequately justify the use of a sole source procurement.

Analysis

DHHC did not consolidate the procurement of certain goods and services to maximize its leverage as a high-volume purchaser. Since these procurements individually were within its delegated spending authority, DHHC was able to circumvent certain State procurement regulations intended to enhance controls, oversight, and transparency. In addition, DHHC did not adequately justify the use of a sole source procurement.

Our review of purchasing and payment activity for several vendors disclosed that DHHC had a pattern of not consolidating its own procurements, but rather splitting purchases into multiple purchase orders, direct payments not associated with purchase orders, or corporate purchasing card (CPC) payments (see Figure 3 on the following page). Specifically, throughout our audit period, DHHC issued 108 purchase orders valued at approximately \$1 million, made direct payments unrelated to purchase orders valued at \$122,000, and payments with CPCs valued at \$618,500. The total payments to four vendors, including those paid through purchase orders, direct payments unrelated to purchase orders, and with CPC, totaled \$1.1 million. Generally, each of these purchase orders and payments were in amounts below its delegated purchase limit of \$50,000.

Figure 3
DHHC Vendor Purchasing Activity
June 11, 2018 through April 30, 2022

Vendor	Type of Purchase	Purchase Orders			Direct Payments	CPC Payments	Total Payments
		Number	Total Value	PO Payments			
1	Beds	65	\$652,700	\$183,400	\$50,300	\$900	\$234,600
2	Beds	43	346,000	129,300	71,700	0	\$201,000
3	Food	0	0	0	0	316,000	\$316,000
4	Food	0	0	0	0	301,600	\$301,600
Total		108	\$998,700	\$312,700	\$122,000	\$618,500	\$1,053,200

Source: State Financial Records

For example, for the rentals of beds with specialized hospital mattresses, DHHC issued 108 purchase orders valued at approximately \$998,700 to 2 vendors via the sole source procurement method, and made 380 related purchase order and direct payments totaling \$434,700 and a \$900 CPC payment. By keeping individual purchases low (generally under \$50,000), DHHC avoided the direct involvement of MDH's OCMP in the procurement. Further, depending upon the value of procurements, DHHC procurements might also be subject to further approvals from the Department of General Services – Office of State Procurement (DGS – OSP), or Board of Public Works (BPW).

Additionally, the use of the sole source method to obtain these beds was questionable. In this regard, while the sole source justifications stated that the respective vendor was the only manufacturer and distributor of this type of bed, our cursory internet search identified numerous other vendors that rented or sold similar beds.

State procurement regulations (SPR) prohibit procurements from being artificially divided to circumvent procurement requirements and that sole source procurements should only be used when goods or services are available from only a single vendor. The MDH Procurement Policy requires procurements exceeding \$50,000 to be submitted to OCMP for procurement, or to obtain a delegation approval. Finally, regardless of DHHC or OCMP procurement processing, SPR further provide that contracts for goods or services of \$50,000 or more require DGS approval and BPW approval for either sole sourced contracts valued at \$100,000 or greater or generally for contracts valued at \$200,000 or greater.

Recommendation 1

We recommend that the MDH Healthcare System, in conjunction with DHHC,

- a. consolidate procurements to maximize State purchasing power and obtain appropriate approvals as required by MDH Policy and SPR; and**
- b. ensure that the sole source procurement method is used only when a single vendor can meet the requirements, and adequately document this justification.**

Payroll

Finding 2

The CCHCs had not established adequate controls to ensure the propriety of payroll transactions, including adjustments to employee pay and leave balances.

Analysis

The CCHCs had not established adequate controls over the processing of payroll transactions on the Statewide Personnel System (SPS). During the CCHCs' respective audit periods, they collectively processed 702 payroll adjustments (such as retroactive payroll payments) that changed employee pay by a total of approximately \$97,800 (increase of \$92,200 and decrease of \$5,600). During this period, the CCHCs also processed 1,218 leave adjustments (such as leave bank enrollments) that changed employee leave balances by 37,681 hours (increase of 17,590 hours and decrease of 20,091 hours).

The CCHCs did not have a procedure to review certain payroll adjustments prior to or following submission to the MDH Office of Human Resources (OHR) for processing in SPS. In addition, the CCHCs did not have a procedure to verify the propriety, prior to or after submission, of leave balance adjustments either made by CCHC employees directly in SPS or made on the CCHCs' behalf by OHR. As a result, there is no assurance that payroll and leave adjustments recorded in SPS were authorized adjustments.

Our test of 20 leave and payroll adjustments processed by the CCHCs disclosed that none had a documented independent supervisory review. In addition, our review determined that 2 leave adjustments at DHHC were improper. Specifically, 2 employees received 522 hours of leave time for which they were not eligible due to a DHHC human resources employee error. Furthermore, 4 payroll adjustments (2 at DHHC and 2 at WMHC) totaling \$8,808 did not have required supporting documentation to enable us to make a determination of the

propriety of the transactions. The CCHCs started seeking reimbursement and making corrective entries for the aforementioned 2 leave adjustments once we brought them to their attention. No further action was taken by the CCHCs on the aforementioned 4 payroll adjustments.

Prudent business practices dictate that a documented, independent review of payroll and leave adjustments should be made for validity, completeness, authorization, accuracy, and proper classification.

Recommendation 2

We recommend that the MDH Healthcare System

- a. establish procedures and controls to review payroll and leave balance adjustments;**
- b. ensure that independent supervisory personnel review and approve payroll transactions (including supporting documentation), and that this approval be documented and all supporting documentation for adjustment is retained; and**
- c. independently verify SPS output reports of payroll and leave balance adjustments to ensure only authorized adjustments had been processed and investigate the propriety of discrepancies.**

Kidney Dialysis Unit Billing

Finding 3

DHHC did not ensure that responsible third-party insurers were billed for all treatments provided to patients, and did not independently verify the propriety of non-cash credits recorded in the accounts receivable records, since May 2021.

Analysis

DHHC did not establish sufficient controls to ensure that all billable kidney dialysis treatments were billed to responsible third parties and that the propriety of non-cash credits adjustments to related accounts receivable records were independently verified. If responsible third party insurers are not billed, then, ultimately, the State will assume the cost of treatment.

- Adequate controls were not maintained to ensure that insurers were billed for all treatments provided. Nurses recorded the treatments provided to patients in an automated system, and this treatment information was transferred electronically to a DHHC billing system at the end of each month. As part of

the billing process, and based on patient records, three employees manually select the treatments to be included on an invoice sent to each insurer.

Our August 2022 review disclosed that since May 2021 there were no reviews of the invoices to ensure that all treatments received by patients with insurance were included. During fiscal year 2022, there were 6,691 treatments provided with billings totaling \$3.5 million. Our test of five billings during the period from July 2020 to April 2022 disclosed that all treatments provided appeared to have been properly billed.

A similar condition was commented upon in our preceding audit report. MDH's response, on behalf of DHHC, noted that an independent review process started in January 2019. However, as noted above, independent reviews had not been performed since May 2021.

- Non-cash credits recorded in the accounts receivable records by the aforementioned DHHC employees were not subject to independent supervisory review and approval. A similar condition was noted in our preceding audit report. In response to that report, DHHC established a procedure in which a supervisor would perform an audit of non-cash credit adjustments made to the DHHC's billing system; however, this review has not been completed since May 2021. Further, the supervisor who performed the past audit was not independent as this individual also had the capability to record the adjustments in the system.

According to agency records, during fiscal year 2022, non-cash adjustments totaled approximately \$5.7 million, the majority of which related to differences between actual charges and amounts allowed by insurance providers. The Comptroller of Maryland's *Accounting Procedures Manual* requires a supervisory review and approval of non-cash adjustments to accounts receivable records.

Recommendation 3

We recommend that the MDH Healthcare System

- a. establish an independent review process to ensure treatments are properly billed to third party insurers by DHHC, at least on a test basis (repeat); and**
- b. ensure that non-cash credits to the accounts receivable records are subject to a documented independent supervisory review by DHHC (repeat).**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the following units of the Department of Health (MDH): the Deer's Head Hospital Center (DHHC) for the period beginning June 11, 2018 and ending April 30, 2022 and the Western Maryland Hospital Center (WMHC) for the period beginning January 2, 2019 and ending April 30, 2022. These units are collectively referred to as the Chronic Care Hospital Centers (CCHCs).

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 CCHCs 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 certain procurements and disbursements for operating expenditures, corporate purchasing cards, accounts receivable, and certain payroll activities. We also determined the status of the findings included in our preceding audit reports of DHHC and WMHC.

Our audit did not include certain support services provided to the CCHCs by MDH – Office of the Secretary. These support services (such as certain other payroll and procurement activities, maintenance of accounting records, and related fiscal functions) are included within the scope of our audit of MDH - Office of the Secretary and Other Units.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period, as detailed above for the various units audited, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of operations at the CCHCs. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us 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), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). 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 determined that the data extracted from these sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from DHHC's automated kidney dialysis health record and billing systems for the purposes of testing the propriety of billings, cash receipts, accounts receivable, and non-cash credits. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the 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.

Under MDH Healthcare System, a part of MDH Operations Administration, the CCHCs' managements are 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 CCHCs, 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 findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect the CCHCs' 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 the CCHCs that did not warrant inclusion in this report.

The response from MDH Healthcare System, on behalf of the CCHCs, 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 the results of our review of its response.

Exhibit 1
Listing of Most Recent Office of Legislative Audits (OLA) Fiscal
Compliance Audits of Maryland Department of Health (MDH)
Units in Current Audit Cycle
As of February 2023 (Page 1 of 2)

Name of Audit		Areas Covered	Report Date
1	Developmental Disabilities Administration	Developmental Disabilities Administration	10/26/22
2	Behavioral Health Administration and Medical Care Programs Administration - Administrative Service Organization for Behavioral Health Services	<ul style="list-style-type: none"> Behavioral Health Administration Medical Care Programs Administration Administrative Service Organization for Behavioral Health Services 	10/25/22
3	Intellectual Disabilities Residential Centers	<ul style="list-style-type: none"> Holly Center Potomac Center Secure Evaluation and Therapeutic Treatment Program 	10/24/22
4	Regional Institutes for Children and Adolescents	<ul style="list-style-type: none"> John L. Gildner Regional Institute for Children and Adolescents Regional Institute for Children and Adolescents – Baltimore 	07/13/22
5	Office of the Chief Medical Examiner	Office of the Chief Medical Examiner	05/12/22
6	Prevention and Health Promotion Administration - Office of Population Health Improvement - Office of Preparedness and Response - Office of Provider Engagement and Regulation	<ul style="list-style-type: none"> Prevention and Health Promotion Administration Office of Population Health Improvement Office of Preparedness and Response Office of Provider Engagement and Regulation – Office of Controlled Substances Administration Office of Provider Engagement and Regulation – Prescription Drug Monitoring Program 	02/23/21
7	Regulatory Services	<ul style="list-style-type: none"> 22 Health Professional Boards and Commissions Office of Health Care Quality 	01/19/21
8	Vital Statistics Administration	Vital Statistics Administration	11/10/20
9	Pharmacy Services	Pharmacy Services for <ul style="list-style-type: none"> Medicaid Managed Care Program Maryland Medicaid Pharmacy Program Kidney Disease Program Maryland AIDS Drug Assistance Program Breast and Cervical Cancer Diagnosis and Treatment Program 	08/31/20

Exhibit 1
Listing of Most Recent OLA Fiscal Compliance Audits
of MDH Units in Current Audit Cycle

As of February 2023 (Page 2 of 2)

Name of Report		Areas Covered	Report Date
10	Office of the Secretary and Other Units	<ul style="list-style-type: none"> • Office of the Secretary • Deputy Secretary and Executive Director for Behavioral Health • Deputy Secretary for Developmental Disabilities • Deputy Secretary for Public Health • Deputy Secretary for Health Care Financing and Chief Operating Officer • Deputy Secretary for Operations 	07/14/20
12	Spring Grove Hospital Center	Spring Grove Hospital Center	04/22/20
13	Medical Care Programs Administration - Managed Care Program	Managed Care Program, known as HealthChoice including oversight of the nine private Managed Care Organizations	04/22/20
14	Laboratories Administration	Laboratories Administration	04/10/20
15	Clifton T. Perkins Hospital Center	Clifton T. Perkins Hospital Center	03/17/20
16	Medical Care Programs Administration	Medical Care Programs Administration	11/07/19
17	Health Regulatory Commissions	<ul style="list-style-type: none"> • Maryland Health Care Commission • Health Services Cost Review Commission • Maryland Community Health Resources Commission 	04/05/19
18	Thomas B. Finan Hospital Center	Thomas B. Finan Hospital Center	3/26/19
19	Springfield Hospital Center	Springfield Hospital Center	12/06/18
20	Eastern Shore Hospital Center	Eastern Shore Hospital Center	11/19/18

APPENDIX



Wes Moore, Governor · Aruna Miller, Lt. Governor · Laura Herrera Scott, M.D., M.P.H., Secretary

May 8, 2023

Mr. Gregory A. Hook, CPA
Legislative Auditor
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, MD 21201

Dear Mr. Hook:

Enclosed is the draft audit report on the Maryland Department of Health – Deer’s Head Hospital Center for the period beginning June 11, 2018 and ending April 30, 2022 and Western Maryland Hospital Center for the period beginning January 2, 2019 and ending April 30, 2022.

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

Sincerely,



Laura Herrera Scott, Secretary
Maryland Department of Health

Enclosure

cc: Erin K. McMullen, Chief of Staff, MDH
Marie Grant, Assistant Secretary for Health Policy, MDH
Frederick D. Doggett, Director, Internal Controls, Audit Compliance & Information Security
Deneen Toney, Deputy Director, Audit & Compliance, MDH
Mary Beth Waide, R.N., J.D., Executive Director, Deer’s Head Hospital Center

Holly C. Young, O.T.D., Acting Executive Officer, Western Maryland Hospital Center, MDH

Bryan I. Mroz, Deputy Secretary of Operations, MDH

Jordan Fisher, Chief of Staff, Operations, MDH

Ken Waller, Chief Financial Officer, Deer's Head Hospital Center, MDH

Kelly L. Edmonds, Chief, Financial Services Team, Western Maryland Hospital Center, MDH

Annie Ollie, Acting Director, Maryland Healthcare System, MDH

**Maryland Department of Health
Chronic Care Hospital Centers
Deer's Head and Western Maryland Hospital Centers**

Agency Response Form

Purchases and Disbursements

Finding 1

DHHC did not consolidate the procurement of certain goods and services to maximize its leverage as a high-volume purchaser resulting in the circumvention of certain oversight and did not adequately justify the use of a sole source procurement.

We recommend that the MDH Healthcare System, in conjunction with DHHC,

- a. consolidate procurements to maximize State purchasing power and obtain appropriate approvals as required by MDH Policy and SPR; and**
- b. ensure that the sole source procurement method is used only when a single vendor can meet the requirements, and adequately document this justification.**

Agency Response	
Analysis	
Please provide additional comments as deemed necessary.	<p>The MDH Healthcare System, which was established on July 1, 2021 comprises the eleven operating MDH healthcare facilities, including the five adult psychiatric hospitals, the two facilities for individuals with intellectual disabilities, the two Regional Institutes for Children and Adolescents, and the two chronic care hospitals, which are the subject of this audit report.</p> <p>The CCHC's were brought under the MDH Healthcare System and MDH Operations Administration after the reporting period for this audit.</p> <p>The MDH Healthcare System was established to create opportunities for both standardization of policies and procedures and sharing of resources where appropriate and beneficial to optimize patient care and fiscal responsibility.</p> <p>Additionally, the Maryland Department of Health reorganized the Department's procurement unit into the Office of Contract Management & Procurement (OCMP) in early 2021. OCMP's mission is to implement lifecycle contract management and procurement initiatives into all aspects of MDH operations, including for the MDH Healthcare System. Further in November 2022, all MDH procurement officers were centralized into OCMP, including all MDH Healthcare System procurement officers.</p>

**Maryland Department of Health
Chronic Care Hospital Centers
Deer's Head and Western Maryland Hospital Centers**

Agency Response Form

Recommendation 1a	Agree	Estimated Completion Date:	12/31/2022
Please provide details of corrective action or explain disagreement.	<p>The MDH Healthcare System will explore opportunities to consolidate contracts where appropriate. Through the procurement centralization, this will be accomplished through OCMP with support from the MDH Healthcare System.</p> <p>With the recent hiring of a new MDH Healthcare System Chief Financial Officer, the MDH Healthcare System in coordination with the MDH Office of Contract Management and Procurement (OCMP) will continue to focus on consolidating system-wide procurements for similar goods and services. These activities are ongoing but have begun within the MDH Healthcare System for new procurements.</p>		
Recommendation 1b	Agree	Estimated Completion Date:	12/31/2022
Please provide details of corrective action or explain disagreement.	<p>Through the procurement officer centralization, OCMP will have oversight over all sole source procurements and will ensure the appropriate documentation is maintained. Sole Source Procurements require the completion of the Sole Source Procurement Officer's Determination. This document requires approval of the sole source by the director of the requesting unit, the MDH Director of OCMP, and the Secretary of MDH or his/her designee.</p> <p>The MDH Healthcare System will coordinate with OCMP to ensure that the sole source procurement methodology will only be utilized when a single vendor can provide these services and will ensure that adequate documentation of the sole source is maintained in the procurement file.</p>		

**Maryland Department of Health
Chronic Care Hospital Centers
Deer's Head and Western Maryland Hospital Centers**

Agency Response Form

Payroll

Finding 2

The CCHCs had not established adequate controls to ensure the propriety of payroll transactions, including adjustments to employee pay and leave balances.

We recommend that the MDH Healthcare System

- a. establish procedures and controls to review payroll and leave balance adjustments;
- b. ensure that independent supervisory personnel review and approve payroll transactions (including supporting documentation), and that this approval be documented and all supporting documentation for adjustment is retained; and
- c. independently verify SPS output reports of payroll and leave balance adjustments to ensure only authorized adjustments had been processed and investigate the propriety of discrepancies.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 2a	Agree	Estimated Completion Date:	5/31/2023
Please provide details of corrective action or explain disagreement.	<p><u>Deer's Head Hospital Center</u></p> <p>Deer's Head Hospital Center (DHHC) concurs with the recommendation.</p> <p>DHHC will develop procedures and controls to ensure the appropriateness of payroll and leave adjustments. Adjustments will be documented and reviewed by supervisory personnel, and an independent review from the Human Resources Director and the Chief Financial Officer (or their designee) will be performed and the approval will be documented prior to submission to the MDH Office of Human Resources for processing.</p> <p><u>Western Maryland Hospital Center</u></p>		

Maryland Department of Health
Chronic Care Hospital Centers
Deer's Head and Western Maryland Hospital Centers

Agency Response Form

	<p>Western Maryland Hospital Center (WMHC) concurs with the recommendation.</p> <p>WMHC will establish a written procedure for verifying the appropriateness of payroll and leave balance adjustments.</p>		
Recommendation 2b	Agree	Estimated Completion Date:	2/28/2023
Please provide details of corrective action or explain disagreement.	<p><u>Deer's Head Hospital Center</u></p> <p>Deer's Head Hospital Center (DHHC) concurs with the recommendation.</p> <p>Adjustments are documented and reviewed by supervisory personnel, and an independent review from the Human Resources Director and the Chief Financial Officer (or their designee) is performed and the approval will be documented and retained prior to submission to the MDH Office of Human Resources (MDH OHR) for processing.</p>		
	<p><u>Western Maryland Hospital Center</u></p> <p>Western Maryland Hospital Center (WMHC) concurs with the recommendation.</p> <p>WMHC reviews current operating procedures regarding payroll and leave balances with MDH Office of Human Resources (OHR) and has established a written, documented procedure of ensuring payroll and leave adjustments are reviewed, retained and approved by independent supervisory personnel before adjustments are submitted to MDH OHR.</p>		
Recommendation 2c	Agree	Estimated Completion Date:	2/28/2023
Please provide details of corrective action or explain disagreement.	<p><u>Deer's Head Hospital Center</u></p> <p>The Deer's Head Hospital Center (DHHC) concurs with the recommendation.</p> <p>The DHHC Chief Financial Officer or designee is responsible for independently reviewing and verifying the appropriateness of payroll adjustments against SPS output reports to ensure only authorized adjustments are processed.</p>		

**Maryland Department of Health
Chronic Care Hospital Centers
Deer's Head and Western Maryland Hospital Centers**

Agency Response Form

	<p>The DHHC Human Resources Director or designee has developed procedures and is responsible for reviewing and independently verifying the appropriateness of leave balance adjustments against SPS output reports to ensure only authorized adjustments are processed.</p> <p><u>Western Maryland Hospital Center</u></p> <p>Western Maryland Hospital Center (WMHC) concurs with the recommendation.</p> <p>WMHC has established a written procedure for verifying SPS output reports for payroll and leave balance adjustments against approved payroll and leave balance adjustments to ensure only authorized adjustments have been processed.</p>
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Kidney Dialysis Unit Billing

Finding 3
DHHC did not ensure that responsible third-party insurers were billed for all treatments provided to patients, and did not independently verify the propriety of non-cash credits recorded in the accounts receivable records, since May 2021.

We recommend that the MDH Healthcare System

- a. establish an independent review process to ensure treatments are properly billed to third party insurers by DHHC, at least on a test basis (repeat); and**
- b. ensure that non-cash credits to the accounts receivable records are subject to a documented independent supervisory review by DHHC (repeat).**

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 3a	Agree	Estimated Completion Date:	6/30/2022

**Maryland Department of Health
Chronic Care Hospital Centers
Deer's Head and Western Maryland Hospital Centers**

Agency Response Form

Please provide details of corrective action or explain disagreement.	<p>DHHC restarted the hard close review process in June of 2022 upon receipt of payment related to billing issues impacting claims from May of 2021 through May of 2022, with no exceptions noted. DHHC is ensuring treatments are properly billed to third party insurers (where applicable), and documented on a test basis, through the hard close process.</p> <p>In the event insurance billing issues arise that could jeopardize the collection of insurance funds used to supplant state General Funds, as occurred in May of 2021, DHHC will perform an interim independent review of treatment totals, with a final documented independent review through the hard close process upon resolution.</p>		
Recommendation 3b	Agree	Estimated Completion Date:	6/30/2022
Please provide details of corrective action or explain disagreement.	<p>DHHC ensures that all non-cash credits to accounts receivable are subject to an independent supervisory review and documented on a monthly basis through the hard close process.</p> <p>In the event the hard close process is paused due to insurance billing issues, DHHC will continue to perform an interim independent review of non-cash credits to the accounts receivable records monthly, with a final documented independent review performed through the hard close process once resumed.</p>		

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