



Department of Legislative Services
Office of Legislative Audits

**Maryland Department of Health
Office of the Secretary
and Other Units**

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Presentation to the Joint Audit Committee

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Audit Overview

- The Maryland Department of Health (MDH) is responsible for promoting the health of the public and for strengthening partnerships between State and local governments, the business community, and all health care providers in Maryland regarding health care.
- The report included 17 findings, 6 of which were repeated from the preceding audit report.
- OLA determined that MDH's accountability and compliance level was unsatisfactory, in accordance with the rating system OLA established in conformity with State law.

The primary factors contributing to the unsatisfactory rating were the significance of the audit findings and the number of repeat findings (**Findings 6, 7, 10, 11, 14, and 17** are repeated from the last audit).



Key Findings

- MDH did not provide adequate oversight of its administrations' use of interagency agreements with State universities.
 - MDH did not always comply with State procurement regulations when awarding sole source and emergency contracts.
 - Supervisory reviews of federal fund reimbursements requests were not always effective, as errors went undetected.
 - Timely and comprehensive audits were not always conducted of grantees.
 - A number of security and control deficiencies were noted with MDH's information systems and network.
 - There were a number of findings in other areas, such as, receipts, accounts receivable, and payroll.
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Interagency Agreements (Finding 1)

MDH did not provide adequate guidance and oversight over 304 interagency agreements valued at \$329.5 million that MDH administrations entered into with units of State universities. Assurance was lacking that the services were appropriate and obtained at the best value.

Cost Effectiveness

MDH lacked a formal process for determining that obtaining services through the agreements was more cost-effective than seeking budgeted positions or using a competitive procurement.

In FY 2017, MDH converted 58 positions from 9 agreements into permanent MDH positions with estimated savings of \$784,000 in general fund expenditures due to increased federal indirect cost recoveries.



Interagency Agreements (Finding 1 – cont.)

Staff Augmentation

MDH used these agreements to augment their staff outside of the budgetary process. According to self-reported data, 102 of the 304 agreements, totaling \$122.7 million, were for general staffing purposes and increased MDH's staffing beyond its budgeted positions.

One agreement allowed an MDH administration to augment its budgeted staff of 239 positions, by an additional 56 positions.

Outside of University Mission

The services provided through these agreements were frequently used to carry out operational functions and did not always appear to be within the mission of the university unit under which they were hired.



Interagency Agreements (Finding 1 – cont.)

Administrative Rates

MDH did not determine the appropriateness of administrative fees charged by the State universities under these agreements.

- Administrative fees with the 304 interagency agreements totaled \$25.6 million (varying from no fee to 31 percent of each agreement's value).
- Certain administrative fees appeared excessive as the State universities' involvement was limited. For example, the 14 percent fee for one agreement appeared excessive because the university's only involvement was generally limited to adding positions to its payroll, paying salaries, and billing MDH.

MDH was responsible for recruiting and selecting employee applicants and providing daily supervision of University employees' work.



Interagency Agreements (Finding 2)

MDH had not established procedures to help ensure its administrations verified that the appropriate services were provided at the agreed-upon costs. For one agreement reviewed, involving the Prevention and Health Promotion Administration (PHPA), for which MDH had paid salaries totaling \$3.7 million as of August 2016, we found

- PHPA had not adequately monitored individuals providing services to ensure that work assignments were clearly defined and appropriately evaluated. The agreement provides only a general description of the duties related to the 25 different positions.
 - PHPA did not verify the rates billed agreed with the individual contracted rates for each position.
 - PHPA's invoice review did not ensure that hours billed were supported by approved timesheets, as required. Our tests disclosed that the required timesheets were not always on file at PHPA.
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Procurements (Finding 3)

MDH did not always comply with State procurement regulations regarding the award of sole source and emergency contracts. Our tests of 6 sole source awards (\$17.1 million) and 3 emergency procurements (\$3.6 million) disclosed:

- For 3 procurements, totaling \$8.7 million, MDH could not adequately justify the procurements as sole source awards. Two contracts for medical services justified a non-competitive procurement to avoid interrupting the patient's continuity of care, but without the required professional support. We also found that similar services were competitively procured.
 - MDH did not have a procedure to negotiate sole source procurement pricing and MDH accepted vendor pricing for the 6 contracts tested.
 - A \$2.1 million emergency contract for facility management and staffing was awarded outside the normal procurement process at higher labor rates than comparable State positions.
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Procurements (Finding 4)

MDH did not have a formal monitoring procedure to ensure that contract awards were consistently published on *eMaryland Marketplace* (eMM), as required by State procurement law and regulations.

Our test of 17 service and IT contracts awarded during FYs 2013 to 2016 disclosed that 8 contracts, totaling \$90 million, were not published on eMM within 30 days of contract award.

- Seven of the contracts awarded between May 2013 and January 2016, totaling \$43 million, had not been published as of April 2017.
- The eighth contract was published more than 4 months after the contract award date.



Procurements (Finding 5)

MDH did not always comply with State regulations regarding bidding and the retention of critical procurement documentation. For example, our test of 8 competitively procured contracts, totaling \$143.5 million disclosed:

- MDH lacked a procedure to record bids when received and to secure bids upon receipt.
 - There was no recordation of bid openings, which were to be done in the presence of two employees, for 6 procurements totaling \$129.2 million.
 - No procurement documentation, such as the vendor proposals and executed contract, could be found for a single bid award of \$10.1 million. We were able to verify that the award was approved by Board of Public Works.
 - For 2 contracts, totaling \$34.4 million, MDH could not provide all financial or technical proposals received.
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Federal Funds (Finding 6)

Supervisory oversight of federal fund reimbursements, although performed and documented, was not always effective and our testing disclosed certain errors that were not detected.

- Our test of 20 reimbursement requests submitted during calendar year 2015, noted that 5 reimbursement requests totaling \$27.2 million were incorrect. This was comprised of underdrawing federal funds by \$3.7 million and overdrawing federal funds by \$23.5 million. MDH was only aware of one of those errors which totaled \$1.3 million.
 - We were advised that these types of errors were routinely corrected through a quarterly reconciliation process. However, MDH lacked any evidence that the 4 aforementioned requests were corrected. Additionally, MDH has previously had problems in this area and was required to repay the federal government \$115.3 million in 2013 for similar errors.
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Inspector General's Office (Findings 7 and 8)

- The MDH Office of the Inspector General (OIG) had not audited certain private providers for more than 5 years and did not always conduct comprehensive private provider audits (**Finding 7**).
 - The OIG had not conducted audits of 22 of the 80 private providers within 5 years. Untimely audits may have reduced effectiveness, especially because grantees are not required to retain the records beyond 5 years.
 - The OIG only conducted desk audits for 50 private providers with grant expenditures totaling \$329.4 million. As such, the scope was reduced as compared to an onsite audit, which would include determining allowable costs and control weaknesses.
 - The OIG did not have a formal process to oversee the corrective actions that resulted from findings at the Local Health Departments (LHDs) and private providers (**Finding 8**).
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Information Systems Security and Control

- Sensitive personally identifiable information stored in two locations were not adequately safeguarded. The National Electronic Disease Surveillance System and the Hospital Management Information System contained, in the aggregate, 215,084 social security numbers stored in clear text along with names, addresses, and dates of birth (**Finding 9**).

- Network access to critical MDH network devices, including internal servers, was not properly restricted.

Intrusion detection prevention system coverage was not used for encrypted traffic entering the network.

Certain wireless connections were not configured securely. Therefore, sensitive information transferred over these connections was susceptible to compromise (**Finding 10**).



Information Systems Security and Control

- Malware protection was not sufficient to provide adequate assurance that computers were properly protected (**Finding 11**).
 - For the computers supported by MDH's Office of Information Technology (OIT), 1,828 computers had versions of malware protection that was out-of-date for periods ranging from 10 months to over 4 years.
 - For the 8,200 MDH computers not directly supported by OIT, reports of malware protection status were not requested from the applicable MDH units.
- IT contractors had unnecessary access to the MDH network and a schedule of all contractors working onsite was not maintained (**Finding 12**).



Examples of Other Findings

- Cash Receipts – Controls were not established to ensure collections, which totaled \$171 million in FY 2015, were secured, accounted for, and deposited (**Finding 13**).
- Accounts Receivable – MDH did not adequately pursue for collection certain delinquent accounts receivable for patient costs. As of June 2016, outstanding accounts totaled \$17.9 million of which \$5.9 million had been outstanding for more than 120 days (**Finding 14**).
- Payroll – Overtime earned by certain employees for an extended period appeared questionable and was not investigated, with one employee during a 2 week period earning 158 hours of overtime (in excess of their regular 80 hours) (**Finding 15**).



Conclusion

MDH should

- provide guidance and oversight to its administrations regarding the use and monitoring of interagency agreements;
- ensure that State procurement laws and regulations are complied with;
- ensure that federal reimbursement requests are properly completed;
- ensure that OIG audits are completed timely and comprehensively, and establish a process to monitor the corrective actions of audit findings; and
- implement the recommended actions to improve controls over information security, cash receipts, accounts receivable, payroll, and other exception areas.