

Audit Report

**Maryland Department of Health
Springfield Hospital Center**

December 2018



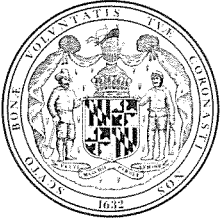
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

December 6, 2018

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee
Delegate C. William Frick, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Springfield Hospital Center (SHC) of the Maryland Department of Health (MDH) for the period beginning January 28, 2015 and ending May 29, 2018. SHC is a State-operated psychiatric facility within MDH's Behavioral Health Administration and provides acute, sub-acute, and long-term inpatient services to admitted Maryland residents.

Our audit disclosed that SHC did not comply with procurement laws and regulations when purchasing fresh produce and medical supplies. Specifically, frequent purchases of fresh produce totaling approximately \$250,000 were not competitively procured, and medical supplies totaling approximately \$270,000 were improperly purchased from a multistate purchasing organization without approval by the Department of General Services and MDH, as required.

MDH's response to this audit, on behalf of SHC, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by SHC.

Respectfully submitted,

Gregory A. Hook, CPA
Legislative Auditor

Background Information

Agency Responsibilities

Springfield Hospital Center (SHC) is a state-operated psychiatric facility located in Sykesville, Maryland. SHC operates as a unit of the Maryland Department of Health's (MDH) Behavioral Health Administration and provides acute, sub-acute, and long-term inpatient services for persons with mental illness throughout the State. SHC is 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 2018, SHC had a licensed capacity of 522 inpatients, a budgeted averaged daily population of 229, and an actual average daily population of 218. According to the State's records, SHC's operating expenditures totaled approximately \$74.8 million during fiscal year 2018.

Status of Finding From Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated October 6, 2015. We determined that SHC satisfactorily addressed this finding.

Findings and Recommendations

Purchases and Disbursements

Finding 1

SHC did not procure fresh produce and certain medical supplies in accordance with State procurement regulations and MDH policies.

Analysis

SHC did not procure fresh produce and certain medical supplies in accordance with State procurement regulations and MDH policies.

- During the period from January 2015 through April 2018, SHC made repeated purchases of fresh produce from one vendor, totaling \$253,734 without any public solicitation, competitive bids, written contracts, or control agency approval as required by State regulations. Consequently, there is a lack of assurance that the State obtained these items at the lowest cost. State procurement regulations generally require a formal written competitive procurement and publication of the solicitation on *eMaryland Marketplace* for

procurements exceeding \$15,000 and control agency approval, such as by the Board of Public Works, for larger procurements.

- SHC did not obtain Department of General Services (DGS) and MDH approval for the purchases of medical supplies from two vendors through Intergovernmental Cooperative Purchasing Agreements (ICPA) as required by State regulations and MDH policies. SHC also did not prepare a determination that using the ICPA was in the best interest of the State. During our audit period, SHC purchased medical supplies from two vendors through ICPAs totaling \$197,675, and \$73,273. State regulations only authorize primary procurement units, such as DGS, to participate in an ICPA. In addition, once procured by DGS, MDH written policy requires its facilities to obtain MDH approval to use an ICPA and to prepare a determination that purchases from an ICPA are in the best interest of the State. Our test of one purchase from each of these vendors, totaling \$9,587 and \$6,256, disclosed that the prices paid appeared reasonable based on an Internet search of current market pricing.

Recommendation 1

We recommend that SHC

- a. comply with State procurement regulations by publicly soliciting competitive bids, executing written contracts, and obtaining control agency approval for procurements, where applicable; and**
- b. refrain from purchasing goods through ICPAs that have not been procured or approved in accordance with State regulations and MDH policies, including those noted above.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Springfield Hospital Center (SHC) of the Maryland Department of Health (MDH) for the period beginning January 28, 2015 and ending May 29, 2018. 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 SHC's financial

transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included procurements and disbursements, corporate purchasing cards, and payroll. We also determined the status of the finding included in our preceding audit report.

Our audit did not include certain support services provided to SHC by MDH. These support services (such as certain payroll and purchasing functions, maintenance of accounting records, and related fiscal functions) are included within the scope of our audit of MDH's Office of the Secretary and Other Units.

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

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data), 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 various sources were sufficiently reliable for the purposes the data were used during this audit. Finally, we performed other auditing procedures that we considered necessary to achieve our objectives. The reliability of data used in this report for background or informational purposes was not assessed.

SHC'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.

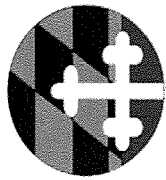
Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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

The response from MDH, on behalf of SHC, 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.

APPENDIX



MARYLAND
Department of Health

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

December 3, 2018

Mr. Thomas J. Barnickel III, CPA
Legislative Auditor
Office of Legislative Audits
301 W. Preston Street
Baltimore, MD 21201

Dear Mr. Barnickel,

Thank you for your letter regarding the draft audit report on the Maryland Department of Health Springfield Hospital Center for the period beginning January 28, 2015 and ending May 29, 2018. Enclosed is the Department's response and plan of correction that addresses each audit recommendation. I will work with the appropriate Deputy Secretary to promptly address all audit exceptions. In addition, the OIG's Division of Audits will follow-up on the recommendations and responses to ensure compliance.

If you have any questions or require additional information, please do not hesitate to contact me at 410-767-4639 or Frederick D. Doggett, Inspector General, at 410-767-0885.

Sincerely,

Robert R. Neall
Secretary

Enclosure

cc: Frederick D. Doggett, Inspector General, MDH
Dr. Barbara Bazron, Deputy Secretary, Behavioral Health Administration
Paula Langmead, Chief Executive Officer, Springfield Hospital Center

**Maryland Department of Health
Springfield Hospital Center
January 28, 2015 to May 29, 2018**

Agency Response Form

Background Information

Agency Response	
Analysis	Factually Accurate
Please explain any concerns with factual accuracy.	No concerns with factual accuracy.

Finding 1
SHC did not procure fresh produce and certain medical supplies in accordance with State procurement laws and regulations, and MDH policies.

We recommend that SHC

- a. comply with State procurement regulations by publicly soliciting competitive bids, executing written contracts, and obtaining control agency approval for procurements, where applicable;
- b. refrain from purchasing goods through ICPAs that have not been procured or approved in accordance with State regulations, including those noted above.

Agency Response			
Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.	No concerns with factual accuracy.		
Recommendation a	Agree	Estimated Completion Date:	12/31/2018
Please provide details of corrective action or explain disagreement.	We concur with the auditor's recommendation. Our corrective action plan is to identify at least two to three vendors to publicly solicit competitive bids for fresh produce on a less than annual basis due to the unique commodity and daily price changes. Our timetable to implement this plan is 12/31/2018		
Recommendation b	Agree	Estimated Completion Date:	06/30/2019
Please provide details of corrective action or explain disagreement.	We concur with the auditor's recommendation. Once DGS has procured medical supplies, our corrective action plan is to obtain MDH approval to use an ICPA and to prepare a determination letter that states that purchases from an ICPA are in the best interest of the State. Our timetable to implement this plan is 06/30/2019.		

AUDIT TEAM

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