

Audit Report

---

**Department of Health and Mental Hygiene  
Laboratories Administration**

March 2016

---



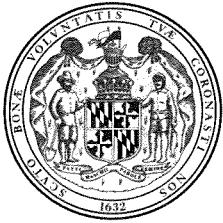
**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

**For further information concerning this report contact:**

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

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

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



DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Warren G. Deschenaux  
Executive Director

March 25, 2016

Thomas J. Barnickel III, CPA  
Legislative Auditor

Senator Guy J. Guzzone, 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 Laboratories Administration of the Department of Health and Mental Hygiene (DHMH) for the period beginning October 24, 2011 and ending June 30, 2015. The Administration provides laboratory testing to assist physicians and health officials in the prevention, diagnosis, and control of human diseases.

Our audit disclosed that the Administration did not have adequate controls over billings for laboratory services, which totaled approximately \$7.5 million during fiscal year 2015, and numerous individuals had inappropriate access to accounts receivable records in its laboratories information management system. In addition, controls were not sufficient over the issuance of controlled dangerous substance permits issued to practitioners and establishments and the related collections.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "TJ Barnickel III".

Thomas J. Barnickel III, CPA  
Legislative Auditor



## **Background Information**

### **Agency Responsibilities**

The Laboratories Administration, a unit of the Department of Health and Mental Hygiene (DHMH), is responsible for providing laboratory testing to assist physicians and health officials in the prevention, diagnosis, and control of human diseases. To ensure the quality of laboratory services, the Administration develops standards and regulations for medical laboratories, tissue banks, and physician office laboratories. It also provides laboratory data for environmental safety and enforcement of environmental protection laws. According to the State's records, during fiscal year 2015, the Administration's central laboratory in Baltimore City and its two regional laboratories conducted approximately 9.1 million laboratory tests, and the Administration's expenditures totaled approximately \$42.8 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 26, 2012. We determined that the Administration satisfactorily addressed one of these findings. The remaining finding is repeated in this report.

## **Findings and Recommendations**

### **Laboratory Services Billings**

#### **Finding 1**

**Controls were not established to ensure the propriety of laboratory services billings, and numerous individuals had unnecessary access to the accounts receivable system.**

#### **Analysis**

Adequate controls were not established to ensure the propriety of laboratory services billings, and numerous individuals had unnecessary access to the accounts receivable system. The Administration used a laboratories information management system (STARLIMS) to bill for these laboratory services and account for the related billing activity, which included newborn screening services, and rabies, well water, and various disease testing. Laboratory fees were set annually for each specific service and were approved by the Secretary of the

Department of Health and Mental Hygiene. These approved fees were recorded in STARLIMS and were automatically included in the bills depending on the laboratory services ordered. Orders for laboratory services were entered into STARLIMS by clerical staff and the related bills for most services were automatically generated after the laboratory staff entered the test results.

Adequate controls were not in place to ensure laboratory services fees were properly billed and account activity was properly supported. The employee responsible for performing a daily verification of adjustments to accounts receivable records was not independent nor was the verification process comprehensive, as it did not include a review of edits made to billings. This verification is essential because the employee who was responsible for printing and mailing the bills, also processed cash receipts and recorded the related payments and non-cash credits to accounts. Furthermore, the annual recording of approved laboratory fees was not subject to an independent review for propriety.

In addition, user access to STARLIMS was not periodically reviewed and we noted numerous individuals were granted unnecessary access to the laboratory services accounts receivable system. Specifically, 14 users – including external vendors, laboratory staff, and information technology employees – were assigned access, as of June 2015, that was not required for their normal job duties. All users granted this access had unrestricted capabilities to generate and edit bills and record account activity.

According to its records, the Administration billed approximately \$7.5 million in laboratory fees during fiscal year 2015. As of April 30, 2015, the Administration had approximately \$1.1 million in outstanding accounts receivable.

#### **Recommendation 1**

##### **We recommend that the Administration**

- a. establish procedures that require an independent, supervisory review and approval of all critical changes made to laboratory services activity, which includes a review of edits to bills and adjustments to accounts receivable records;**
- b. require an independent, supervisory review and approval of the annual recording of approved laboratory services fees;**
- c. periodically review system access and restrict such access to employees who need it for their job duties; and**
- d. immediately remove the unnecessary access granted to the aforementioned 14 individuals.**

## Controlled Dangerous Substance Permits

### Finding 2

#### **Controls over issuance of controlled dangerous substance permits and related collections were inadequate.**

##### **Analysis**

Adequate controls were not established over controlled dangerous substance (CDS) permits and related collections. The Administration's Division of Drug Control collects a fixed fee for the registration of practitioners and establishments that manufacture, distribute, dispense, or otherwise handle CDS in the State. The Division used the same laboratories information management system (STARLIMS) mentioned previously to account for the registration applications received and to print the related permits once the applications were processed. Practitioners within establishments operated by the State are exempt from the payment of registration or renewal registration fees. According to Administration records, the Division of Drug Control issued 20,464 permits during fiscal year 2015, including 148 fee-exempt permits, and collected approximately \$2.4 million in registration fees.

- CDS collections were not immediately recorded and deposited timely. Check payments, which were submitted with the applications, were not recorded until the applications were processed. Our test of 15 CDS applications received between May 2014 and June 2015 disclosed that the related check payments for all 15 applications were recorded in STARLIMS between 3 and 37 business days after the applications and fees were received. Furthermore, these 15 checks totaling \$1,800 were remotely deposited between 4 and 38 business days after receipt. The Comptroller of Maryland's *Accounting Procedures Manual* requires that collections be immediately recorded upon receipt and promptly deposited by the following business day.
- The Administration did not safeguard checks after they had been deposited through the remote deposit system and did not destroy them as required. As of July 1, 2015, the Administration had 21,870 checks on hand, totaling approximately \$2.6 million that had been deposited 33 days to 2 years earlier. While the checks had been restrictively endorsed and marked as scanned, these checks containing sensitive personal information were placed in folders in a storage room accessible by all fourteen Division of Drug Control employees. The Office of the State Treasurer's *Policy on the Use of Remote Deposit Services by Maryland State Agencies* requires that scanned and transmitted checks be stored in a secure location and destroyed within 30 days.

- CDS permits, including fee-exempt permits, were not subject to an independent supervisory review to ensure permits were properly issued. The two individuals responsible for comparing the printed permits with the practitioner information included on the applications were not independent of the application processing and permit issuance functions. For example, one individual could initiate, edit, and complete permit transactions, including processing the payment and printing the permits from STARLIMS. In addition, the review did not ensure that permits designated as fee-exempt were appropriate. Consequently, this individual could issue fee-exempt permits to non-exempt permit holders and misappropriate the related fee collections without detection. A similar comment regarding lack of independent supervisory review of CDS transactions was included in our preceding audit report.

## **Recommendation 2**

**We recommend that the Administration establish adequate controls over controlled dangerous substance (CDS) collections. Specifically, we recommend that the Administration**

- record checks immediately upon receipt and deposit collections timely;**
- safeguard checks that have been remotely deposited, in accordance with the State Treasurer's *Policy on the Use of Remote Deposit Services by Maryland State Agencies*; and**
- establish procedures to ensure that issued CDS permits, including fee-exempt permits, are reviewed for propriety by an independent supervisor (repeat).**

## **Audit Scope, Objectives, and Methodology**

We have conducted a fiscal compliance audit of the Laboratories Administration of the Department of Health and Mental Hygiene (DHMH) for the period beginning October 24, 2011 and ending June 30, 2015. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine the



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

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included cash receipts, accounts receivable, payroll, and disbursements. We also determined the status of the findings contained in our preceding audit report.

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

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

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We 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 audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

The Administration's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide

reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

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 Administration's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. This report also includes a finding regarding a significant instance of noncompliance with applicable laws, rules, or regulations. Another less significant finding was communicated to the Administration that did not warrant inclusion in this report.

The response from DHMH, on behalf of the Administration, to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise DHMH regarding the results of our review of its response.

## APPENDIX



STATE OF MARYLAND

# DHMH

## Maryland Department of Health and Mental Hygiene

*Larry Hogan, Governor - Boyd K. Rutherford, Lt. Governor - Van T. Mitchell, Secretary*

March 23, 2016

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


Dear Mr. Barnickel:

Thank you for your letter regarding the draft audit report for the Department of Health and Mental Hygiene – Laboratories Administration for the period beginning October 22, 2011 through June 30, 2015. Enclosed you will find the Department's response and plan of correction that addresses each audit recommendation.

I will work with the appropriate administration directors, program directors and deputy secretary to promptly address the audit exceptions. In addition, the Office of the Inspector General's 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 Megan D. Limarzi, Inspector General, at 410-767-5862.

Sincerely,



Van T. Mitchell  
Secretary

cc: Howard M. Haft, M.D., Deputy Secretary Public Health, DHMH  
Jennifer Newman Barnhart, Chief of Staff Public Health, DHMH  
Audrey Clark, Chief, Division of Drug Control Public Health, DHMH  
Robert A. Myers, Ph.D., Director, Laboratories Administration, DHMH  
Michael Pense, Fiscal Administrator, Laboratories Administration, DHMH  
Megan D. Limarzi, Inspector General, DHMH  
Elizabeth Morgan, Assistant Inspector General, DHMH  
Shawn Cain, Chief of Staff, DHMH

## Findings and Recommendations

### **Finding 1**

**Controls were not established to ensure the propriety of laboratory services billings, and numerous individuals had unnecessary access to the accounts receivable system.**

#### **Auditor's Recommendation:**

**We recommend that the Administration**

- a. establish procedures that require an independent, supervisory review and approval of all critical changes made to laboratory services activity, which includes a review of edits to bills and adjustments to accounts receivable records;**
- b. require an independent, supervisory review and approval of the annual recording of approved laboratory services fees;**
- c. periodically review system access and restrict such access to employees who need it for their job duties; and**
- d. immediately remove the unnecessary access granted to the aforementioned 14 individuals.**

#### **Administration's Response:**

- a. The Administration concurs with the recommendation. The Administration will establish procedures that require an independent, supervisory review and approval of all critical changes made to laboratory services activity, which includes a review of edits to bills and adjustments to accounts receivable records. The Administration has already changed the capability of authorized users who could change the testing prices in the database. Additional changes to procedures will be forthcoming. Anticipated completion date: October 1, 2016.
- b. The Administration concurs with the recommendation. Changes to procedures will be forthcoming. Anticipated completion date: October 1, 2016.
- c. The Administration concurs with the recommendation. The Administration's Office of Information Management Services will periodically review, at least on a semi-annual basis, the system access capabilities over critical transactions and restrict such access to employees who need it for their job duties.
- d. The Administration concurs with the recommendation. However, the Administration disagrees with removing the Administration's three Information Technology (IT) staff and one STARLIMS vendor employee who need it for critical job duties and functions, which include updates and reprogramming should the database breakdown. Changes to procedures will be forthcoming. Anticipated completion date: October 1, 2016.

**Finding 2**

**Controls over issuance of controlled dangerous substance permits and related collections were inadequate.**

**Recommendation 2**

**We recommend that the Administration establish adequate controls over controlled dangerous substance (CDS) collections. Specifically, we recommend that the Administration**

- a. record checks immediately upon receipt and deposit collections timely;**
- b. safeguard checks that have been remotely deposited, in accordance with the State Treasurer's *Policy on the Use of Remote Deposit Services by Maryland State Agencies*; and**
- c. establish procedures to ensure that issued CDS permits, including fee-exempt permits, are reviewed for propriety by an independent supervisor (repeat).**

**Administration's Response:**

- a. The Administration concurs with the recommendation. Our procedures now require checks to be deposited within two business days of receipt. Formal documentation of check deposits is reflected in the CDS database, which includes both check receipt and check deposit dates.
- b. The Administration concurs with the recommendation. Effective August 3, 2015, all checks that have been remotely deposited are safeguarded in accordance with the *State Treasurer's Policy on the Use of Remote Deposit Services by Maryland State Agencies*.
- c. The Administration concurs with the recommendation. The Administration revised its procedures effective March 1, 2016.

The Administration previously attempted to correct this finding by developing procedures and a report to monitor transactions for accuracy and potential risk. However, the report as designed did not accomplish those objectives. As a result, the Administration re-evaluated its review process and a new review procedure is currently in place to confirm the accuracy of the permits issued.

AUDIT TEAM

**Heather A. Warriner, CPA**  
Audit Manager

**Jeneba R. Jalloh, CPA**  
Senior Auditor

**Amanda M. Jones**  
Staff Auditor