

Audit Report

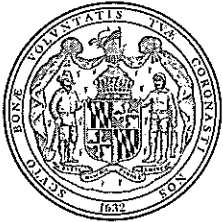
Department of Health and Mental Hygiene
Eastern Shore Hospital Center
and
Upper Shore Community Mental Health Center

September 2011



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

Karl S. Aro
Executive Director

September 30, 2011

Bruce A. Myers, CPA
Legislative Auditor

Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Eastern Shore Hospital Center (ESHC) and the Upper Shore Community Mental Health Center (USCMHC) of the Department of Health and Mental Hygiene for the period beginning March 24, 2008 and ending February 23, 2011. ESHC and USCMHC provide psychiatric and related services to patients from the nine counties of Maryland's Eastern Shore. As a cost-containment effort and due to a reduction in the number of patients requiring services, on March 1, 2010, USCMHC closed and transferred its patients to other state and local facilities. Currently, USCMHC is partially occupied by tenants and is overseen by ESHC.

Our audit disclosed that ESHC awarded a service contract to a physician it employed, in violation of DHMH policy. In addition, controls were insufficient over patient funds and the approval of certain time records.

The Department of Health and Mental Hygiene's response to this audit, on behalf of ESHC, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by ESHC.

Respectfully submitted,

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

Bruce A. Myers, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Eastern Shore Hospital Center (ESHC), located in Cambridge, Maryland, provides comprehensive psychiatric and related services to patients from the nine counties of Maryland's Eastern Shore. The services provided include inpatient treatment and community service programs. According to its records, during fiscal year 2011, ESHC, which is accredited by the Joint Commission on Accreditation of Healthcare Organizations, had a licensed capacity of 76 inpatients, a budgeted average daily population of 76 inpatients, and an actual average daily population of 74 inpatients. According to the State's records, fiscal year 2011 ESHC operating expenditures totaled approximately \$16.8 million.

Prior to March 1, 2010, the Upper Shore Community Mental Health Center (USCMHC), located in Chestertown, Maryland, provided mental health services to patients from Caroline, Cecil, Kent, Queen Anne's, and Talbot Counties with a licensed capacity of 64 inpatients, a budgeted daily population of 21 inpatients, and an actual average daily population of 18 inpatients. During fiscal year 2010, the Department of Health and Mental Hygiene (DHMH) closed USCMHC and transferred the patient population to other State and local facilities commensurate with individual patient needs. A decision was made to consolidate DHMH's mental hygiene facilities due to a reduction in the number of patients requiring services and to eliminate the costs to maintain these facilities. As of February 28, 2010, all patients had been transferred from USCMHC.

After USCMHC was closed to patients, the facility became a tenant-occupied facility, with oversight from ESHC. USCMHC continues to have an operating budget that provides for four employees, utilities, communication, and other expenditures, which are partially funded by tenant reimbursements. According to the State's records, during fiscal years 2010 and 2011, USCMHC operating expenditures totaled approximately \$6.2 million and \$1.24 million, respectively. Its fiscal year 2011 operating expenditures were funded by approximately \$471,200 in State general funds and approximately \$768,800 from various State and local tenants.

Asset Liquidation

As of June 30, 2010, the liquidation of certain USCMHC equipment was finalized. Prior to the facility's closure, USCMHC's equipment totaled approximately \$890,900 and, during fiscal year 2010, equipment totaling approximately \$480,300 was transferred to other State and local facilities,

including ESHC. Additionally, equipment totaling approximately \$158,700 was approved for disposal. As of June 30, 2010, USCMHC had equipment totaling approximately \$251,900, which was mainly comprised of kitchen and maintenance equipment in order for the USCMHC property to operate as a tenant-occupied facility.

Status of the Findings From the Preceding Audit Report

Our audit included a review to determine the status of the two findings contained in our preceding audit report dated November 19, 2008. We determined that ESHC and USCMHC satisfactorily addressed these findings.

Findings and Recommendations

Physician Services

Finding 1

The Eastern Shore Hospital Center (ESHC) awarded a service contract to a physician it employed full-time, violating DHMH policy, and continued to pay for these services after the contract period ended.

Analysis

On March 30, 2007, ESHC awarded a service contract, for the period from April 2, 2007 to June 30, 2008, valued at \$8,250, to provide 24 hour/7 day on-call clinical support and backup services, to a physician employed full-time by ESHC, in violation of the Department of Health and Mental Hygiene's (DHMH) *Physician's On-Duty/Off-Duty Compensation Policy*. Specifically, while the service contract had been approved by ESHC's Chief Operations Officer, the *Policy* prohibits such service contract relationships when an employer-employee relationship exists. According to this *Policy*, when an employer-employee relationship exists, in order for a physician to provide after-hours coverage, the employee must be paid through the State's payroll system, and not as a service contractor.

Additionally, we questioned the need for this contract since the physician's regular job responsibilities included providing on-call clinical support to physicians working after-hours shifts for resolution of extraordinary problems. Furthermore, ESHC continued to pay the physician's monthly \$550 rate for the services for another two years, until July 31, 2010, even though the contract was only allowed a three-month extension past the June 30, 2008 contract ending date.

According to the State's accounting records, ESHC paid the physician a total of \$20,350 for these contracted services through July 2010, in addition to the physician's annual regular salary.

After the payments under the service contract were discontinued, this physician provided on-duty after-hours coverage and was paid through the State's payroll system. However, the physician was also responsible for scheduling after-hours¹ physician coverage and approving the related time records, including the physician's own time records. Specifically, our review of 26 after-hours time records for the period from August 2010 to February 2011 disclosed that the physician approved all the time records, which included 351 hours worked by the physician. We calculated that the physician received compensation totaling approximately \$15,800 for these 351 hours. Without independent supervisory approval of time records, ESHC lacks assurance regarding the accuracy of the time worked and the propriety of the related payments.

Recommendation 1

We recommend that ESHC

- a. strictly adhere to the DHMH's *Physician's On-Duty/Off Duty Compensation Policy*, and**
- b. ensure that independent supervisory personnel approve the after-hours time records.**

We advised ESHC on accomplishing the necessary separation of duties using existing personnel.

Patient Funds

Finding 2

Patient fund deposit verifications were not performed by an independent employee and access to related records was not properly controlled.

Analysis

ESHC patient funds were not adequately controlled. Specifically, we noted the following deficiencies:

- The employee that performed the verification of recorded collections to deposits was not independent. This employee had routine access to collections and, at times, processed cash receipts.

¹After-hours work is defined as evening and weekend shifts in order to provide 24-hour/7day physician coverage.

- Access to the patient funds accounting systems was not properly restricted to the employees who required such access. The accounting systems used to record patient transactions were maintained on the business office network and were available to three employees of the business office who did not need the access to perform their job duties. Furthermore, all of these employees had access to cash collections and the cash maintained in the safe, which is used for cash disbursements to patients. In addition, we noted that user IDs and passwords were not required to access these systems.

The Comptroller of the Treasury's *General Accounting Division Manual* requires that cash handling duties and record keeping duties be segregated. Furthermore, deposit verifications should be performed by an employee independent of the cash receipt function. The Department of Information Technology's (DoIT) *Information Security Policy* indicates that users should be uniquely identified in information systems. According to ESHC's records, during fiscal year 2011, patient fund collections and disbursements totaled approximately \$41,000 and \$56,000, respectively.

Recommendation 2

We recommend that ESHC

- ensure that deposit verifications are performed by an employee independent of the cash receipts functions,**
- restrict access to the accounting systems to those employees that require such access to perform their job duties, and**
- ensure that all users are assigned unique IDs to access these systems.**

We advised ESHC on accomplishing the necessary separation of duties using existing personnel.

Audit Scope, Objectives, and Methodology

We have audited the Eastern Shore Hospital Center (ESHC) and the Upper Shore Community Mental Health Center (USCMHC) of the Department of Health and Mental Hygiene for the period beginning March 24, 2008 and ending February 23, 2011. As a cost-containment measure, on March 1, 2010, USCMHC closed and transferred its patients to other state and local facilities. Currently, USCMHC is partially occupied by tenants and is overseen by ESHC. 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 ESHC's and USCMHC's financial transactions, records and internal control, and to evaluate their compliance with applicable State laws, rules, and regulations. We also determined the status of findings contained in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. The primary areas addressed by the audit included payroll, procurements and disbursements, pharmaceutical inventories, and patient funds. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of ESHC's and USCMHC's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

ESHC provides payroll, personnel, and certain financial support services (such as monthly reconciliations) to USCMHC. Since these support services represent a significant part of our audit effort with respect to the activities of USCMHC, a combined audit was conducted.

ESHC's and USCMHC'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.

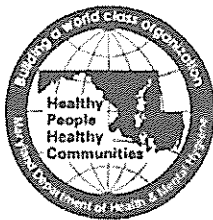
Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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 ESHC's and USCMHC's ability to maintain reliable financial records, operate effectively and efficiently and/or comply with applicable laws, rules, and regulations. Our report also includes a finding regarding a significant instance of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to ESHC and USCMHC that did not warrant inclusion in this report.

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

APPENDIX



STATE OF MARYLAND

DHMH

Maryland Department of Health and Mental Hygiene

201 W. Preston Street • Baltimore, Maryland 21201

Martin O'Malley, Governor – Anthony G. Brown, Lt. Governor – Joshua M. Sharfstein, M.D., Secretary

September 26, 2011

Mr. Bruce Myers, CPA
Legislative Auditor
Office of Legislative Audits
301 W. Preston Street
Baltimore, MD 21201

Dear Mr. Myers:

Thank you for your letter regarding the draft audit report for the Department of Health and Mental Hygiene's Eastern Shore Hospital Center and Upper Shore Community Mental Health Center for the period beginning March 24, 2008 and ending February 23, 2011. 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 Director, and Deputy Secretary to promptly address all audit exceptions. In addition, the 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 Thomas V. Russell of my staff at 410-767-5862.

Sincerely,

Joshua M. Sharfstein, M.D.
Secretary

cc: Renata J. Henry, Deputy Secretary for Behavioral Health and Disabilities, DHMH
Valerie A. Roddy, Chief of Staff to Deputy Secretary for Behavioral Health and Disabilities, DHMH
Brian Hepburn, M.D., Executive Director, Mental Hygiene Administration, DHMH
Donald K. Simpson, Chief Executive Officer, ESHC
Thomas V. Russell, Inspector General, DHMH
Ellwood L. Hall, Jr., Assistant Inspector General Audits, DHMH

EASTERN SHORE HOSPITAL CENTER
RESPONSES TO DRAFT LEGISLATIVE AUDIT REPORT
SEPTEMBER 2011

Physician Services

Finding 1

The Eastern Shore Hospital Center (ESHC) awarded a service contract to a physician it employed full-time, violating DHMH policy, and continued to pay for these services after the contract period ended.

Recommendation 1

We recommend that ESHC

- a. strictly adhere to the DHMH's *Physician's On-Duty/Off Duty Compensation Policy*, and
- b. ensure that independent supervisory personnel approve the after-hours time records.

Center's Response:

- a. The Center concurs with the recommendation and will comply with DHMH's Physician On-Duty/Off Duty Compensation Policy in the future. The Center did enter into a contract with the Clinical Director at the direction and approval of the former Chief Executive Officer for one year to provide 24 hour/7 day on-call clinical support and back-up services. The individual did work two additional years without a contract. On or about July 1, 2010 after the CEO retired, this practice was discontinued and the physician was placed on special payments payroll in accordance with the DHMH "Physician On-Duty/Off-Duty Compensation Policy where he continued to provide on-duty services. This physician left State Service effective June 30, 2011.
- b. The Center concurs with the recommendation and had instituted a procedure to ensure that independent supervisory personnel approve the after-hours time records beginning in November 2010, prior to the Legislative Audit visit.

Patient Funds

Finding 2

Patient fund deposit verifications were not performed by an independent employee and access to related records was not properly controlled.

Recommendation 2

We recommend that ESHC

- a. ensure that deposit verifications are performed by an employee independent of the cash receipts functions,

- b. restrict access to the accounting systems to those employees that require such access to perform their job duties, and**
- c. ensure that all users are assigned unique IDs to access these systems.**

Center's Response:

- a. The Center concurs with the recommendation and implemented on July 1, 2011 an independent cash verification process with the Chief Operating Officer as the individual assigned to this function as recommended by the Legislative Auditors.**
- b. The Center concurs with the recommendation and restricted access to accounting systems to those employees that require such access to perform their job duties effective July 1, 2011.**
- c. The Center concurs with the recommendation and has assigned unique IDs to those accounting systems effective July 1, 2011.**

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