

Audit Report

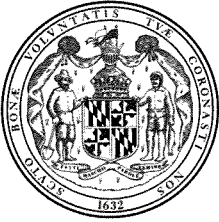
**Department of Health and Mental Hygiene
Health Regulatory Commissions**

February 2015



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

February 5, 2015

Karl S. Aro
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee
Delegate Craig J. Zucker, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Health Regulatory Commissions of the Department of Health and Mental Hygiene for the period beginning May 16, 2011 and ending June 30, 2014. The Health Regulatory Commissions consists of the following independent commissions:

- Maryland Health Care Commission (MHCC)
- Health Services Cost Review Commission (HSCRC)
- Maryland Community Health Resources Commission (MCHRC)

These three independent commissions are responsible for health-related functions, including directing and administering the State's health planning functions, developing health care cost-containment strategies, reviewing and approving hospital rates, and increasing health care access for low-income, underinsured, and uninsured Marylanders.

Our audit disclosed that MHCC did not have adequate controls over the Maryland Trauma Physician Services Fund, which is used to reimburse trauma physicians who provided uncompensated care. We also noted that MCHRC did not always execute grant agreements prior to disbursing funds, and did not adequately monitor certain healthcare grants.

The Department of Health and Mental Hygiene's response to this audit, on behalf of the Commissions, 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 Commissions.

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Health Regulatory Commissions is a budgetary unit of the Department of Health and Mental Hygiene that comprises three independent commissions established by law: the Maryland Health Care Commission, the Health Services Cost Review Commission, and the Maryland Community Health Resources Commission.

The Maryland Health Care Commission (MHCC) is responsible for directing and administering the State's health planning functions, developing health care cost-containment strategies, and maintaining a database of all non-hospital health care services. The Health Services Cost Review Commission (HSCRC) is responsible for establishing, reviewing, and approving hospital billing rates; monitoring hospital compliance with approved billing rates; collecting data on hospital utilization and quality; and administering the Hospital Uncompensated Care Fund, which compensates hospitals for services provided to individuals unable to pay. The MHCC and HSCRC are jointly responsible for administering the Maryland Trauma Physician Services Fund, which reimburses trauma physicians who provided uncompensated care and is funded by a \$5 surcharge on all Maryland vehicle registrations. The Maryland Community Health Resources Commission (MCHRC) is responsible for increasing health care access for low-income, uninsured, and underinsured Marylanders by providing grants to community health resources.

According to the State's records, fiscal year 2014 operating expenditures for the Commissions totaled approximately \$46.8 million. Additionally, approximately \$134.6 million was paid to hospitals from the Hospital Uncompensated Care Fund during fiscal year 2014. The operating expenditures and Fund expenditures are primarily funded by user fees assessed to hospitals and other entities.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the five findings contained in our preceding audit report dated January 7, 2013. We determined that the Commissions satisfactorily addressed these findings.

Findings and Recommendations

Maryland Trauma Physician Services Fund

Finding 1

One individual had excessive control over the Maryland Trauma Physician Services Fund.

Analysis

The Maryland Health Care Commission (MHCC) had not established sufficient controls over the Maryland Trauma Physician Services Fund. MHCC administers a program that provides reimbursements from the Fund to trauma physicians who submit claims for services rendered to uncompensated care patients treated at Maryland trauma centers.

- One individual had excessive control over the Fund's recordkeeping, collections, and payments. This individual maintained certain Fund records, processed claim payments, and received checks from trauma physicians to reimburse the Fund for claim overpayments. Claim overpayments occur when a trauma physician, who had previously been reimbursed by the Fund through an approved claim, receives payments from other sources.
- Checks from trauma physicians were not restrictively endorsed for deposit immediately upon receipt. Instead, the aforementioned individual recorded receipt of the checks on a log, updated the Fund records, and then forwarded the checks to another individual for restrictive endorsement and transfer to the Department of Health and Mental Hygiene for subsequent bank deposit.

Under these conditions, funds could be misappropriated without detection. According to MHCC's records, during fiscal years 2011 to 2013, reimbursement claim payments totaled approximately \$14.2 million and checks received to reimburse the Fund totaled approximately \$1.6 million.

Recommendation 1

We recommend that MHCC

- a. separate the duties for Fund recordkeeping, collection, and payment; and**
- b. restrictively endorsed checks immediately upon receipt.**

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

Grant Monitoring

Finding 2

Grant agreements were not always executed prior to disbursing funds and certain healthcare grants were not adequately monitored.

Analysis

The Maryland Community Health Resources Commission (MCHRC) did not always execute grant agreements prior to disbursing funds and did not adequately monitor certain healthcare grants. According to MCHRC records, during the period from July 1, 2011 to June 30, 2014, there were 205 grant awards totaling approximately \$25.4 million, of which approximately \$13.8 million had been spent during this period.

MCHRC primarily awards grants to community organizations and nonprofits for Health Enterprise Zones (HEZ) and Local Health Improvement Coalitions (LHIC). HEZ grants distribute funds to five designated zones of need for various purposes including increased primary care, patient outreach, and provider training. LHIC grants are primarily used to hire healthcare personnel and to purchase equipment to improve the quality of Maryland healthcare.

We tested 15 HEZ or LHIC grant awards totaling \$8.8 million, with related expenditures totaling \$3.7 million. Our test of these grants disclosed the following conditions:

- MCHRC did not always properly execute grant agreements prior to disbursing funds to the grantees. Specifically, 23 grant agreements totaling approximately \$1.5 million were not signed by MCHRC prior to approving grant payments. Although 21 of these grant agreements were subsequently signed by MCHRC, the remaining 2 grant agreements totaling \$25,000, covering the period from June 27, 2012 to September 30, 2012, were not signed as of August 2014. Without a properly executed grant agreement, MCHRC's remedies in the case of grantee nonperformance could be limited.

- MCHRC did not document its review of self-reported grantee performance results (such as milestones and deliverables related to hiring and training) and grant expenditure reports for HEZ and LHIC grants. In addition, MCHRC did not always obtain supporting documentation to substantiate the reported performance data and expenditures. Grantee performance data and expenditure reports are critical to MCHRC in evaluating the effectiveness of grantees and in determining if grant expenditures were proper.

For example, MCHRC did not obtain supporting documentation for the reported performance data for any of the 15 grants tested and for reported grant expenditures totaling \$853,600 related to 7 of the grants. For 3 other grants, the supporting documentation for certain reported grant expenditures (such as expense reimbursements, travel costs, and gift cards) totaling \$19,300 was not sufficient to provide assurance the expenditures were consistent with the purpose of the grants. The HEZ and LHIC grant agreements require grantees to submit periodic reports detailing performance data and grant expenditures. Detailed supporting documentation must be provided by grantees upon request. According to MCHRC's grant monitoring policy, it reviews this information to determine the grantee's effectiveness in achieving grant objectives and goals.

Recommendation 2

We recommend that MCHRC

- a. ensure all grant agreements are properly executed prior to making payments to the grantees;**
- b. perform a documented review of self-reported grantee performance results and expenditure reports; and**
- c. obtain supporting documentation, at least on a test basis, to ensure the grantee is meeting grant milestones and deliverables and to ensure grant funds are spent in accordance with the grant agreements.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Health Regulatory Commissions of the Department of Health and Mental Hygiene (DHMH) for the period beginning May 16, 2011 and ending June 30, 2014. The Commissions consists of the Maryland Health Care Commission, the Health Services Cost Review Commission, and the Maryland Community Health Resources Commission. 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 Commissions' 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 hospital rate monitoring, the Maryland Trauma Physician Services Fund, grant programs, and hospital uncompensated care. We also determined the status of the findings contained in our preceding audit report.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of the Commissions' operations, and tests of transactions. We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure 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 this source 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.

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

The Commissions' 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 that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect the Commissions' ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations.

DHMH's response, on behalf of the Commissions, 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

Lawrence J. Hogan, Jr., Governor – Boyd K. Rutherford, Lt. Governor – Van T. Mitchell, Secretary

February 4, 2015

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 – Health Regulatory Commissions for the period beginning May 16, 2011 through June 30, 2014. 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 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 Thomas V. Russell, Inspector General, at 410-767-5862.

Sincerely,

Van T. Mitchell
Secretary

cc: Donna Kinzer, Executive Director, HSCRC
Ben Steffen, Executive Director, MHCC
Mark A. Luckner, Executive Director, MCHRC
John Colmers, Chair, HSCRC
Craig P. Tanio, M.D., Chair MHCC
John A. Hurson, Esquire, Chair, MCHRC
Thomas V. Russell, Inspector General, DHMH
Elizabeth Morgan, Acting Assistant Inspector General, DHMH
Shawn Cain, Chief of Staff, DHMH

Findings and Recommendations

Maryland Trauma Physician Services Fund

Finding 1

One individual had excessive control over the Maryland Trauma Physician Services Fund.

Recommendation 1

We recommend that MHCC

- a. separate the duties for Fund recordkeeping, collection, and payment; and**
- b. restrictively endorsed checks immediately upon receipt.**

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

MHCC's Response

- a. The Commission concurs with the recommendation to separate the duties for Fund recordkeeping, collection, and payment functions. In the past, the duties were informally segregated as the request for payments were reviewed by the Director of Administration before sending through to General Accounting, but the request for payment was not signed. These payments were then reconciled to the monthly FMIS ledgers and the ledgers were signed by the Maryland Health Care Commission's Fiscal Administrator and the Director of Administration.

Effective December 1, 2014, staff implemented a formal process for the separation of duties by having the Program Manager, complete the initial request, the Director of Administration review and sign the request, and the Fiscal Administrator and Director of Administration dually completing the reconciliation and signing ledgers. This process will also apply to collection of refunds.

- b. The Commission concurs with the recommendation to endorse checks immediately upon receipt.

Grant Monitoring

Finding 2

Grant agreements were not always executed prior to disbursing funds and certain healthcare grants were not adequately monitored.

Recommendation 2

We recommend that MCHRC

- a. ensure all grant agreements are properly executed prior to making payments to the grantees;**
- b. perform a documented review of self-reported grantee performance results and expenditure reports; and**
- c. obtain supporting documentation, at least on a test basis, to ensure the grantee is meeting grant milestones and deliverables and to ensure grant funds are spent in accordance with the grant agreements.**

MCHRC's Response

- a. We concur. The MCHRC has developed policies and implemented procedures to resolve this finding and address this recommendation. Effective immediately, all new grant agreements will be properly executed prior to making payments to grantees.
- b. We concur. Effective immediately, the MCHRC is performing documented reviews of self-reported grantee performance results and expenditure reports. This review is approved by a supervisor and documents retained for audit purposes.
- c. We concur. Beginning May 1, 2015, the MCHRC will obtain supporting documentation, on a test basis, for at least 25% of all current/active grants on an annual basis, to ensure the grantee is meeting grant milestones and deliverables, and to ensure that grant funds are spent in accordance with the grant agreements. These grantees will be randomly selected and the reviews will be documented and approved.

AUDIT TEAM

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