



Department of Legislative Services
Office of Legislative Audits

**Department of Health
and Mental Hygiene –
Spring Grove Hospital Center**

Special Review
(based on allegations
received by OLA Fraud Hotline)

Report dated November 10, 2008



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Background Information

- The special review was conducted as a result of allegations received through our fraud hotline relating to the procurement of maintenance projects that were individually less than \$25,000.
- The Center's Maintenance Department has a staff of 47 employees with related salary and fringe benefit expenditures of \$2.4 million during fiscal year 2008. An additional \$581,000 was spent on maintenance equipment, supplies and contractual services.
- Procurement deficiencies relating to construction and maintenance projects have previously been commented on in our April 2001 and April 2007 fiscal/compliance audit reports.



Summary of Key Issues

- **Questionable Transactions:** The bidding process for a number of procurements of maintenance-related goods and services totaling \$167,000, which were individually below the \$25,000 threshold requiring Department of General Services approval, appeared to have been compromised.
 - **Work Directed to Certain Contractors:** Projects totaling \$232,000 were directed to three contractors during periods when each employed a certain individual, due to the Center's favorable opinion of the individual. Competitive bids were often not obtained.
 - **Personal Relationships:** Personal relationships and related transactions between certain SGHC employees and contractors may have violated State Ethics Laws and a related Governor's Executive Order.
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Questionable Transactions (Finding 1)

- The bidding process used by the Center's Maintenance Department to award projects to one in-state contractor appeared to be significantly compromised.
- The losing bids for 12 projects totaling \$43,700 were purportedly submitted by two out-of-state contractors. However, the losing bids were all faxed to the Department by an in-state contractor who, in all 12 cases, was awarded the projects as the low bidder.
- For 21 other projects totaling \$87,500, the top portion of the bid documents were tampered with (such as torn-off), thereby eliminating references as to the originating location of the faxed bids. The in-state contractor was awarded all 21 projects as the low bidder.



Questionable Transactions (continued)

- A number of other “red flags” relating to projects awarded to this one in-state contractor were noted. For example:
- purchased equipment items could not always be located,
 - sole source procurements were awarded for HVAC repairs that appeared to be routine in nature, and
 - \$26,800 in premiums were paid to vendors to expedite the fabrication of HVAC equipment even though the equipment was not manufactured within the specified timeframe.



Work Directed to Other Contractors (Finding 2)

- The Center's Maintenance Department directed work totaling \$232,000 to three other contractors while they employed a specific individual.
- These contractors were not awarded any projects prior to, or subsequent to, the time periods that they employed this one individual.
- Maintenance Department management advised us that they directed work to these contractors without utilizing any type of competitive process because they liked the work performed by this individual.



Work Directed to Other Contractors (continued)

- A number of other “red flags” relating to projects awarded to these contractors were noted. For example:
 - sole source procurement justifications were inadequate, and
 - for one project, the losing bid was submitted via fax by the aforementioned individual even though at that time, this individual worked for the contractor that was the winning bidder on the project.



Personal Relationships (Finding 3)

- Contractors that had personal relationships with two Maintenance Department employees and a senior management employee outside the Maintenance Department were awarded projects totaling \$76,000. No projects had been awarded to these contractors prior to employment by the Center of these employees.
- For example, a Maintenance Department supervisory employee used a contractor as a reference when applying for a position with the Center. Eight days after being hired, the employee began awarding projects to that contractor. Subsequent to the hiring, projects totaling \$40,000 were awarded to the contractor during fiscal year 2008, including projects awarded as no-bid emergency procurements.



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Conclusion

- The Center should strictly comply with the requirements of the State Procurement Regulations.
- The Center should consult with the Office of the Attorney General – Criminal Division regarding any further action to be taken on certain matters.
- Information concerning the personal relationships between Center personnel and contractors should be referred to the State Ethics Commission.