

Audit Report

**Maryland Department of Health
Deer's Head Hospital Center**

March 2019



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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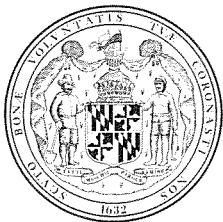
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

March 14, 2019

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee
Delegate Shelly L. Hettleman, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Deer's Head Hospital Center (DHHC) of the Maryland Department of Health (MDH) for the period beginning January 6, 2014 and ending June 10, 2018. DHHC provides chronic care and treatment to patients requiring a hospital-level rehabilitation program, long-term nursing home care, and inpatient and outpatient kidney dialysis services.

Our audit disclosed that DHHC allowed a contract with a vendor for certain medical supplies to expire while still purchasing the same items from the vendor for 11 months at significantly higher prices than those paid under both the expired and a subsequent contract. In addition, DHHC did not have adequate procedures in place to ensure that all kidney dialysis treatments provided were properly billed to insurers, and did not independently review and approve non-cash credit adjustments to the related accounts receivable records.

MDH's response to this audit, on behalf of DHHC, is included as an appendix to this report. We reviewed the response to our findings and related recommendations, and have concluded that the corrective actions identified are sufficient to address all audit issues.

We wish to acknowledge the cooperation extended to us during the audit by DHHC. We also wish to acknowledge MDH's and DHHC's willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink, reading "Gregory A. Hook". The signature is written in a cursive, flowing style.

Gregory A. Hook
Legislative Auditor

Background Information

Agency Responsibilities

The Deer's Head Hospital Center (DHHC) is located in Salisbury, Maryland, and provides chronic care and treatment to patients requiring a hospital-level rehabilitation program, long-term nursing home care, and inpatient and outpatient kidney dialysis services. During fiscal year 2017, DHHC had a licensed capacity of 146 inpatients, a budgeted average daily population of 56 inpatients, and an actual daily population of 46 inpatients. DHHC's dialysis unit also provided 8,830 dialysis treatments to 62 patients. DHHC is accredited by The Joint Commission, an independent, non-profit organization which evaluates, monitors, and accredits health care organizations in the United States to ensure the highest quality of care is provided. According to the State's records, during fiscal year 2017, DHHC expenditures totaled approximately \$24.7 million.

Findings and Recommendations

Procurements

Finding 1

DHHC allowed a contract with a medical supply vendor to expire prior to initiating a new competitive contract procurement to replace it. For 11 months, DHHC continued to purchase supplies from the vendor at significantly higher prices than provided for in both the expired and subsequent contracts.

Analysis

DHHC allowed a contract with a medical supply vendor to expire prior to initiating a new competitive contract procurement to replace it. For 11 months, DHHC continued to purchase supplies from the vendor without a contract in place and at significantly higher prices than provided for in both the expired and subsequent contracts. Specifically, DHHC continued to purchase certain supplies routinely used for kidney dialysis treatments from this vendor after its contract expired in June 2016. DHHC later initiated a competitive procurement process to replace the contract and a new contract was eventually awarded to the same vendor, but not until June 2017.

During the period from July 2016 through May 2017, DHHC continued to purchase the supplies from the same vendor without a contract, at significantly higher prices, resulting in increased payments to the vendor; see Table 1. For example, we reviewed the prices paid for three items routinely purchased from the vendor. On an April 2016 invoice, we noted that the prices charged ranged from \$96 to \$150 per item. On the April 2017 invoice (after the contract expired), the prices charged for the same items ranged from \$354 to \$498 per item, representing an average increase of 247 percent.

Table 1
Kidney Dialysis Medical Supply Expenditures with Vendor

Fiscal Year	Total Purchases	Dollar Change	Percent Change From Prior Year
2015	\$162,573		
2016	\$176,604	\$14,031	9%
2017	\$459,430	\$282,826	160%
2018	\$169,824	-\$289,606	-63%

Source: State accounting records

State procurement regulations require purchases in excess of \$25,000, such as these supplies, to be awarded by competitive sealed bidding and that purchases greater than \$5,000 be supported by a written contract.

Recommendation 1

We recommend that DHHC

- a. comply with State procurement regulations by establishing written contracts and competitively procuring supplies,**
- b. monitor contract terms to enable the timely procurement of new contracts, and**
- c. consult with legal counsel to determine if action can be pursued to recover any portion of the increased costs paid to the vendor when no contract was in place.**

Kidney Dialysis Unit Billing

Finding 2

DHHC did not ensure that responsible third-party insurers were billed for all treatments provided to dialysis patients, and did not independently verify the propriety of non-cash credits recorded in the Kidney Dialysis Unit's accounts receivable records.

Analysis

DHHC did not establish sufficient controls to ensure that all billable kidney dialysis treatments provided were billed to responsible third parties, and that the propriety of non-cash credit adjustments to related accounts receivable records were independently verified.

- Adequate controls were not in place to ensure that insurers were billed for all treatments provided. Nurses recorded the treatments provided to patients in an automated system, and this treatment information was transferred electronically to a DHHC billing system at the end of each month. As part of the billing process, and based on patient records, an employee manually selected the treatments to be included on an invoice sent to each insurer. Our review disclosed that there was no independent review of the invoices to ensure all treatments received by patients with insurance were included. As a result, through omission, all treatments covered by third-party insurance may not be invoiced. During fiscal year 2018, there were 8,859 treatments provided with billings totaling \$3.6 million, according to agency records. Our test of 15 billings during the period from February 2017 to April 2018 disclosed that all treatments provided and covered by third-party insurers appeared to have been properly billed.
- Non-cash credits recorded in the accounts receivable records by the aforementioned DHHC employee were not subject to independent supervisory review and approval. In addition, DHHC did not have an output report of these transactions to enable an independent verification. According to agency records, during fiscal year 2018, non-cash credit adjustments totaled approximately \$2.6 million, the majority of which related to differences between actual charges and amounts allowed by insurance providers. The Comptroller of Maryland's *Accounting Procedures Manual* requires a supervisory review and approval of non-cash adjustments to accounts receivable records.

Recommendation 2

We recommend that DHHC

- a. establish an independent review process to ensure all treatments are properly billed to third party insurers, and**
- b. ensure that non-cash credits to the accounts receivable records are subject to a documented independent supervisory review.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Deer's Head Hospital Center (DHHC) of the Maryland Department of Health (MDH) for the period beginning January 6, 2014 and ending June 10, 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 DHHC'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, procurements and disbursements, materials and supplies, corporate purchasing cards, and payroll. Our audit included certain support services (billing and collection for kidney dialysis services) provided to the MDH – Western Maryland Center (WMC) until July 1, 2016 when WMC discontinued providing these kidney dialysis services.

Our audit did not include certain support services provided by MDH's Office of the Secretary. 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

DHHC'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 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.

DHHC'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 deficiencies in the design or operation of internal control that could adversely affect DHHC's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our audit also disclosed significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to DHHC that did not warrant inclusion in this report.

The response from MDH, on behalf of DHHC, 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

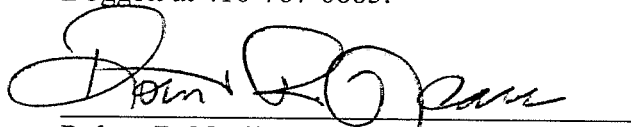
Larry Hogan, Governor · Boyd K. Rutherford, Lt. Governor · Robert R. Neall, Secretary

March 8, 2019

Mr. Gregory A. Hook, CPA
Legislative Auditor
Office of Legislative Audits
State Office Building, Room 1202
301 West Preston Street
Baltimore, MD 21201

Dear Mr. Hook:

We are providing the attached responses to the draft report from your fiscal compliance audit of the Deer's Head Hospital Center for the period beginning January 6, 2014 and ending July 6, 2018. If you have any questions, please feel free to contact me or Inspector General Frederick D. Doggett at 410-767-0885.


Robert R. Neall, Secretary

3/11/19
Date

cc. Frederick D. Doggett, Inspector General, MDH
Sha S. Brown, Assistant Inspector General – Audits, MDH
Mary Beth Waide, CEO, Deer's Head Hospital Center

Maryland Department of Health
Deer's Head Hospital Center

Agency Response Form

Procurements

Finding 1

DHHC allowed a contract with a medical supply vendor to expire prior to initiating a new competitive contract procurement to replace it. For 11 months, DHHC continued to purchase supplies from the vendor at significantly higher prices than provided for in both the expired and subsequent contracts.

We recommend that DHHC

- a. comply with State procurement regulations by establishing written contracts and competitively procuring supplies,**
- b. monitor contract terms to enable the timely procurement of new contracts, and**
- c. consult with legal counsel to determine if action can be pursued to recover any portion of the increased costs paid to the vendor when no contract was in place.**

Agency Response			
Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.			
Recommendation 1a	Agree	Estimated Completion Date:	12/05/2018
Please provide details of corrective action or explain disagreement.	DHHC concurs with the recommendation. We have renewed a written contract. In addition, DHHC has recently hired an agency buyer which allows us to competitively procure supplies. This was completed on 12/05/2018.		
Recommendation 1b	Agree	Estimated Completion Date:	12/05/2018
Please provide details of corrective action or explain disagreement.	DHHC concurs with the recommendation. We have recently hired an agency buyer to assist with the daily processing of purchase orders which will allow contract renewals to be processed prior to expiration by the Procurement Manager to enable the timely procurement of new contracts. This was completed on 12/05/2018.		
Recommendation 1c	Agree	Estimated Completion Date:	02/01/2019
Please provide details of corrective action or explain disagreement.	DHHC concurs with the recommendation. DHHC has submitted the question to consult with the AG's office to determine if action can be pursued to recover any portion of the increased costs paid to the vendor when no contract was in place and to determine the feasibility and process. This was completed on 2/1/09.		

Maryland Department of Health
Deer's Head Hospital Center

Agency Response Form

Kidney Dialysis Unit Billing

Finding 2

DHHC did not ensure that responsible third-party insurers were billed for all treatments provided to dialysis patients, and did not independently verify the propriety of non-cash credits recorded in the Kidney Dialysis Unit's accounts receivable records.

We recommend that DHHC

- a. establish an independent review process to ensure all treatments are properly billed to third party insurers, and**
- b. ensure that non-cash credits to the accounts receivable records are subject to a documented independent supervisory review.**

Agency Response			
Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.			
Recommendation 2a	Agree	Estimated Completion Date:	01/01/2019
Please provide details of corrective action or explain disagreement.	DHHC concurs with the recommendation. DHHC is in the process of establishing an independent review process to ensure all treatments in the Electronic Medical Record (EMR) will be reconciled to the billing system by the CFO on a monthly basis. The new procedure will entail the CFO receiving a listing of the total treatments by month per the EMR. This total treatment report will be reconciled against the treatments billed and adjusted in the billing system. This was completed on 01/01/2019.		
Recommendation 2b	Agree	Estimated Completion Date:	01/01/2019
Please provide details of corrective action or explain disagreement.	DHHC concurs with the recommendation. DHHC will ensure that non-cash credits to the accounts receivable records are subject to a documented independent supervisory review. To ensure the reasonableness of non-cash credits, a new procedure will be implemented which will entail a monthly "hard close" of the billing system. The CFO will selectively review items billed, by patient account, and review the adjustments made by the billing program, along with adjustments made by the billing person upon receipt of payment, against the adjustments listed in the insurance remittance advice and dated, with CFO's initials on document. This was completed on 01/01/2019.		

AUDIT TEAM

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