

Audit Report

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

November 2008



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

November 19, 2008

Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Delegate Steven J. DeBoy, Sr., 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 August 1, 2005 and ending March 23, 2008. ESHC and USCMHC provide psychiatric and related services to patients from the nine counties of Maryland's Eastern Shore.

Our audit disclosed that ESHC generally did not attempt to obtain certain medical services for ESHC and for USCMHC at the lowest possible prices. In addition, a contract with a State university to provide staffing for ESHC was not adequately monitored to ensure that contractor billings were based upon contractor costs, and the contract was not reported to the Department of Budget and Management, as required.

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

Respectfully submitted,

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. During fiscal year 2007, ESHC, which is accredited by the Joint Commission on Accreditation of Healthcare Organizations, had a licensed capacity of 80 inpatients, a budgeted average daily population of 78 inpatients, and an actual average daily population of 77 inpatients. According to the State's records, ESHC's fiscal year 2007 expenditures totaled approximately \$17.6 million. ESHC provides certain administrative support services to the Upper Shore Community Mental Health Center (USCMHC).

USCMHC, located in Chestertown, Maryland, provides mental health services to patients from Caroline, Cecil, Kent, Queen Anne's, and Talbot Counties. During fiscal year 2007, USCMHC, which is also accredited by the Joint Commission on Accreditation of Healthcare Organizations, had a licensed capacity of 64 inpatients, a budgeted daily population of 39 inpatients, and an actual average daily population of 38 inpatients. According to the State's records, USCMHC's fiscal year 2007 expenditures totaled approximately \$8.9 million.

Status of Finding From Preceding Audit Report

Our audit included a review to determine the status of the one finding contained in our preceding audit report dated November 29, 2005. We determined that the finding was satisfactorily addressed.

Findings and Recommendations

Contractual Services

Finding 1

Efforts were not made to obtain certain medical services for the Eastern Shore Hospital Center (ESHC) and the Upper Shore Community Mental Health Center (USCMHC) at the lowest possible prices.

Analysis

Our review of expenditures paid for certain medical services (such as physician services and dental services) and the related procurement methods, disclosed that efforts were generally not made to obtain such services at the lowest possible prices. Rather than soliciting bids for these services, we were advised that ESHC and USCMHC generally paid the prices charged by the providers. ESHC is responsible for procuring goods and services for both centers. Expenditures for these medical services at ESHC and USCMHC totaled approximately \$715,000 and \$321,000, respectively, during our audit period. Based on a test of selected invoices paid by ESHC to two medical providers, which were paid \$100,000 during our audit period, we noted that the rates paid to one provider were excessive and there was no evidence of bids or of sole source justifications for either of these services.

For one physician that provided cardiology services to ESHC patients, we tested three invoices totaling \$5,180. We noted that, for the same services, the rates paid by ESHC were substantially higher than the reimbursement rates of the Department of Health and Mental Hygiene's (DHMH) Medicaid Program. While we were advised that only a few ESHC patients are covered by Medicaid, we used those rates, which are set by DHMH, for comparative purposes. The table below shows the differences in rates for the service dates on the three invoices tested:

Table 1			
Comparison of Rates Paid by ESHC to Medicaid Rates			
Date of Service	Amount Paid by ESHC	Medicaid Rate	Difference
July 6, 2007	\$1,510	\$285	\$1,225
July 25, 2007	\$2,270	\$703	\$1,567
February 26, 2008	\$1,400	\$210	\$1,190
Totals	\$5,180	\$1,198	\$3,982

The rates paid by ESHC for these services were also substantially higher than the reimbursement rates of a large State employee health plan, resulting in a total difference of \$3,299. ESHC acknowledged the disparity in costs and, although this issue had not been formally evaluated, management believed that a lack of specialists in the geographic area willing to treat ESHC's patients limited its ability to negotiate or otherwise obtain services at a lower cost.

For the other medical services provider, we tested two invoices totaling \$4,500 and noted that payments were made on a weekly basis for four hours of service at \$125 per hour. However, documentation of competitive bids for the services was not available.

The State Procurement Regulations require that bids be solicited for all procurements exceeding \$2,500. These Regulations also include provisions for sole source procurements, emergency procurements, and procurements by negotiated award after unsatisfactory competitive bidding.

Recommendation 1

We recommend that ESHC comply with the provisions of the State Procurement Regulations with respect to obtaining medical services for ESHC and USCMHC patients.

Finding 2

ESHC did not properly monitor contract billings for pharmacy services.

Analysis

ESHC did not adequately monitor a contract with a State university to provide personnel for the operation of its pharmacy. Since this contract, for the period from July 1, 2006 through June 30, 2009, was awarded as an interagency agreement, it was not subject to the competitive procurement provisions of the State Procurement Regulations and did not require Board of Public Works approval. We noted the following conditions:

- Costs billed to ESHC were not compared with the university's supporting documents (such as payroll records). Under the terms of the contract, ESHC's payments to the university were to be based on the actual expenditures incurred by the university. Payments to the university totaled \$348,000 during fiscal year 2007.
- We noted that this contract was not reported to the Department of Budget and Management (DBM) as required by the fiscal years 2007 through 2009 budget

bills. Those bills required State agencies to report to DBM any agreements in place between State agencies and any public institution of higher education involving potential expenditures in excess of \$100,000 over the terms of the agreements.

Recommendation 2

We recommend that ESHC verify the accuracy of amounts charged on the invoices from the State university by reviewing supporting documents, including payroll records. In addition, we recommend that ESHC report the contract to DBM, as required.

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 August 1, 2005 and ending March 23, 2008. 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 the one finding 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. 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 provided 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.

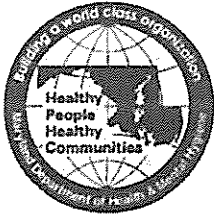
Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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 a finding relating to a condition that we consider to be a significant deficiency 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. This report also includes findings of significant instances 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 and USCMHC, 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 – John M. Colmers, Secretary

November 18, 2008

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

Dear Mr. Myers:

Thank you for your letter regarding the draft audit report for the Eastern Shore Hospital Center and the Upper Shore Community Mental Health Center for the period beginning August 1, 2005 and ending March 23, 2008. Enclosed you will find the Department's response and plan of correction that addresses the audit recommendation.

I will work with the appropriate Directors of Administration, Program Directors, and Deputy Secretary to promptly address the audit exception. In addition, the Division of Internal Audits will follow-up on the recommendation 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 Russell, Inspector General, of my staff at 410-767-5862.

Sincerely,

John M. Colmers
Secretary

Enclosure

cc: Renata Henry, Deputy Secretary, Behavioral Health and Disabilities
Valerie Roddy, Assistant Director to the Deputy Secretary, Behavioral Health and Disabilities
Brian Hepburn, M.D., Executive Director, MHA
Mary Kay Noren, Chief Executive Officer, Eastern Shore Hospital Center and Upper Shore
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Randy Bradford, Chief Operating Officer, Eastern Shore Hospital Center and Upper Shore
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Ellwood L. Hall, Assistant Inspector General, Audits, DHMH
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Findings and Recommendations

Contractual Services

Finding 1

Efforts were not made to obtain certain medical services for the Eastern Shore Hospital Center (ESHC) and the Upper Shore Community Mental Health Center (USCMHC) at the lowest possible prices.

Recommendation 1

We recommend that ESHC comply with the provisions of the State Procurement Regulations with respect to obtaining medical services for ESHC and USCMHC patients.

Center's Response

The Center takes exception to the findings as COMAR specifically exempt inpatient State facilities from the Medicaid fee schedule which was used by Auditors as a comparative basis. Furthermore, the comparison of amounts paid by the facility for medical services to the payments made by a large State employee health plan is also not reasonable. The fees paid by the facility represent usual and customary fees paid on behalf of uninsured individuals who are not privileged to receive the same discounts made available to individuals in large groups such as Medicaid and state health insurance plans. In spite of this, some billings were discounted. Since the audit, we have contacted specialists concerning their fee structures and found that the fees being charged for services during the audit period basically remains the same.

This facility operates in a service area designated by the Federal Government as being underserved in terms of physician services and as a result, it has been increasingly more difficult to find specialists who are willing to treat our patients in their offices who have psychiatric disorders and are also forensic.¹

¹ **Auditor's Comment:** We compared the amounts paid by one of the Centers for medical services to the Medicaid fee schedule to assess the reasonableness of the prices paid and not to imply that the Centers' providers should be paid in accordance with the fee schedule. Based on the comparisons performed, we continue to believe that the possibility for significant cost savings exists. Furthermore, our finding states that efforts were generally not made to obtain medical services at the lowest possible prices and that the Centers paid the prices charged by the providers. During our audit, no evidence was provided to indicate that any attempts to obtain these services at the best possible prices were made.

Finding 2

ESHC did not properly monitor contract billings for pharmacy services.

Recommendation 2

We recommend that ESHC verify the accuracy of amounts charged on the invoices from the State University by reviewing supporting documents, including payroll records. In addition, we recommend that ESHC report the contract to DBM, as required.

Center's Response

The Center agrees with the findings that independent verification of payments made to a State University for pharmacy services did not take place. Steps have been taken to receive supporting documentation to perform this verification.

We concur with the auditors' finding and recommendation to report any agreements in place between State agencies and any public institutions of higher learning to DBM. However, because the dollar value of the contract exceeded the delegated procurement level authorized to Eastern Shore Hospital Center, the contract had to be negotiated by the Department's Office of Procurement and Support Services (OPASS) and not by the Center. OPASS has agreed to submit the University contract to DBM. Also, the Office of Procurement and Support Services will make every effort to report MOUs processed to DBM as required in the future.

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