

Audit Report

**Maryland Department of Health
Spring Grove Hospital Center**

April 2020



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Joint Audit and Evaluation Committee

Senator Clarence K. Lam, M.D. (Senate Chair)	Delegate Carol L. Krimm (House Chair)
Senator Malcolm L. Augustine	Delegate Steven J. Arentz
Senator Adelaide C. Eckardt	Delegate Mark S. Chang
Senator George C. Edwards	Delegate Keith E. Haynes
Senator Katie Fry Hester	Delegate Michael A. Jackson
Senator Cheryl C. Kagan	Delegate David Moon
Senator Benjamin F. Kramer	Delegate April R. Rose
Senator Cory V. McCray	Delegate Geraldine Valentino-Smith
Senator Justin D. Ready	Delegate Karen Lewis Young
Senator Craig J. Zucker	One Vacancy

To Obtain Further Information

Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, Maryland 21201
Phone: 410-946-5900 · 301-970-5900 · 1-877-486-9964 (Toll Free in Maryland)
Maryland Relay: 711
TTY: 410-946-5401 · 301-970-5401
E-mail: OLAWebmaster@ola.state.md.us
Website: www.ola.state.md.us

To Report Fraud

The Office of Legislative Audits operates a Fraud Hotline to report fraud, waste, or abuse involving State of Maryland government resources. Reports of fraud, waste, or abuse may be communicated anonymously by a toll-free call to 1-877-FRAUD-11, by mail to the Fraud Hotline, c/o Office of Legislative Audits, or through the Office's website.

Nondiscrimination Statement

The Department of Legislative Services does not discriminate on the basis of age, ancestry, color, creed, marital status, national origin, race, religion, gender, gender identity, sexual orientation, or disability in the admission or access to its programs, services, or activities. The Department's Information Officer has been designated to coordinate compliance with the nondiscrimination requirements contained in Section 35.107 of the United States Department of Justice Regulations. Requests for assistance should be directed to the Information Officer at 410-946-5400 or 410-970-5400.



Victoria L. Gruber
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Gregory A. Hook, CPA
Legislative Auditor

April 22, 2020

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Carol L. Krimm, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Spring Grove Hospital Center (SGHC) of the Maryland Department of Health (MDH) for the period beginning February 17, 2015 and ending February 18, 2019. SGHC is a State-operated psychiatric facility within MDH's Behavioral Health Administration and provides mental health services to adults in Baltimore City, and Baltimore and Harford Counties.

Our audit disclosed that SGHC had not established proper controls over its procurement process, resulting in questionable activity. Similar findings were previously noted in our 2008 special review of SGHC, which also noted involvement from several of the same management employees identified during the current audit. Specifically, specifications prepared for one invitation for bid appeared to be tailored to the dietary equipment provided by the winning vendor and one SGHC management employee communicated directly with this vendor regarding the related solicitation. Although three bids were received in response to the solicitation, this vendor was the only one who met the specifications and was awarded the \$800,000 contract.

In addition, significant deficiencies were identified relating to SGHC's delegated procurement activity, resulting in routine circumvention of State procurement regulations. SGHC employees directly solicited, received, and evaluated bids and selected vendors to supply maintenance goods and services. Many of these purchases were artificially divided to avoid competitive public solicitations and the involvement of the MDH Office of Procurement and Support Services. In

addition, SGHC did not ensure that the related invoices were adequately supported and agreed with all contract terms, resulting in overpayments.

Furthermore, we noted that SGHC hired immediate family members of employees to fill 6 of 15 summer intern positions. One of the interns hired was an immediate family member of the management employee who oversaw and approved the hiring of the interns, potentially violating State Ethics Laws.

Finally, our audit included a review to determine the status of the two findings contained in our preceding audit report. We determined that SGHC satisfactorily addressed one finding. The remaining finding, related to insufficient controls over collections, is repeated in this report.

MDH's response to this audit, on behalf of SGHC, 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 SGHC. We also wish to acknowledge MDH's and SGHC's willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

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

Gregory A. Hook, CPA
Legislative Auditor

Table of Contents

Background Information	4
Agency Responsibilities	4
Status of Findings From Preceding Audit Report	4
Findings and Recommendations	5
Questionable Procurement Activity	
Finding 1 – The invitation for bid for the purchase of dietary equipment costing \$800,000 appeared to be tailored to a particular vendor.	6
Finding 2 – SGHC circumvented State procurement regulations and MDH procurement policies by artificially dividing procurements for goods and services to keep them under certain solicitation and delegation thresholds. In addition, SGHC did not always competitively procure or verify amounts paid on certain purchases, resulting in questionable activity and overpayments.	7
Potential Ethics Violations	
Finding 3 – SGHC hired six summer interns who were family members of SGHC employees, including a management employee involved in the intern-hiring process.	11
Cash Receipts	
* Finding 4 – SGHC did not effectively safeguard and account for its collections and ensure collections were deposited.	12
Audit Scope, Objectives, and Methodology	14
Agency Response	Appendix

* Denotes item repeated in full or part from preceding audit report

Background Information

Agency Responsibilities

The Spring Grove Hospital Center (SGHC) is a unit of the Maryland Department of Health (MDH) located in Catonsville, Maryland. SGHC provides a wide range of comprehensive mental health services to residents of Baltimore City, and Baltimore and Harford Counties. Furthermore, SGHC provides inpatient competency and criminal responsibility evaluations and long-term inpatient and domiciliary care to patients found not criminally responsible. In addition, SGHC provides ancillary services to the Maryland Psychiatric Research Center, a joint program between the MDH and the University of Maryland, School of Medicine. SGHC is accredited by The Joint Commission, which evaluates and monitors health care organizations nationwide to promote safe, high-quality care, treatment, and services.

During fiscal year 2018, SGHC had a licensed capacity of 639 inpatients, a budgeted average daily population of 352 and an actual average daily population of 367. According to the State's records, total SGHC expenditures were approximately \$86.9 million during fiscal year 2018.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the two findings contained in our preceding audit report dated October 15, 2015. We determined that SGHC satisfactorily addressed one of these findings. The remaining finding is repeated in this report.

Status of Preceding Findings		
Preceding Finding	Finding Description	Implementation Status
Finding 1	Controls were not established to ensure collections were properly accounted for and deposited.	Repeated (Current Finding 4)
Finding 2	SGHC recordkeeping procedures for equipment were not in compliance with certain requirements.	Not repeated

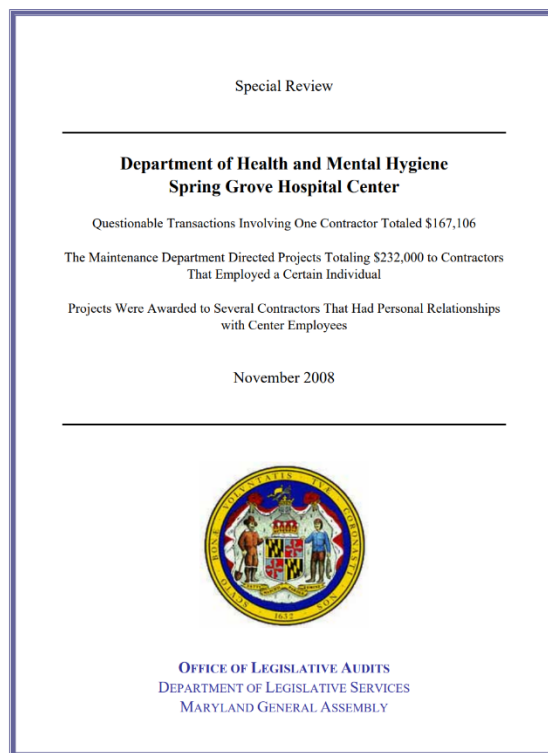
Findings and Recommendations

Questionable Procurement Activity

Background

During our audit fieldwork, we were advised by Spring Grove Hospital Center (SGHC) management that the Maryland Department of Health's (MDH) Office of the Inspector General (OIG) had received allegations of questionable procurement activities involving two SGHC employees. OIG conducted a review of the allegations and issued a report on its findings dated March 6, 2018. The OIG report disclosed that SGHC employees violated State laws and regulations and MDH policy when procuring certain goods and services. Specifically, the report disclosed that a SGHC management employee authorized the award of a \$1,800 contract to a company owned by a relative of a SGHC maintenance employee. In addition, the report disclosed that the management employee circumvented State procurement regulations and MDH policy by directing work and approving payments totaling \$18,600 to two other vendors without a competitive procurement process. MDH did not refer these matters to the Office of the Attorney General or the State Ethics Commission, and SGHC allowed both the management and maintenance employees to resign in lieu of termination.

Our reading of the OIG report disclosed that this same management employee was previously involved in certain procurements that were the subject of a special review we conducted in 2008 in response to allegations that we received about SGHC through our fraud, waste, and abuse hotline. The allegations were concerning possible improper procurement activities related to certain maintenance projects. Our November 10, 2008 special report (see cover page) included four findings and resulted in a referral of certain matters to the Office of the Attorney General – Criminal Division. This same management employee separated from State service after the issuance of our special



report. However, we noted that this management employee was rehired in March 2017 by a SGHC senior management employee who was also involved in the procurements included in our special review.

Given these circumstances, we expanded our review of SGHC's procurements during this fiscal compliance audit to include certain procurements involving these SGHC employees as well as procurements under certain established thresholds. Our expanded review identified procurement and monitoring deficiencies and certain questionable activity described in Findings 1 and 2. These current matters have been referred by us to the Office of the Attorney General – Criminal Division. A referral to the Criminal Division does not mean that a criminal act has actually occurred or that criminal charges will be filed.

Finding 1

The invitation for bid for the purchase of dietary equipment costing \$800,000 appeared to be tailored to a particular vendor.

Analysis

Specifications in SGHC's invitation for bid (IFB) for the purchase of dietary equipment appeared to be tailored to a particular vendor. In April 2017, the Department of General Services (DGS), on behalf of SGHC, publicly advertised the IFB on *eMaryland Marketplace* (eMM). Although the procurement was processed through DGS, preparation of the IFB and evaluation of the related bids were performed by SGHC personnel, including one of the management employees noted above.

Based on our review, we identified certain equipment design and physical requirements in the IFB that favored the equipment of a specific vendor (hereinafter referred to as the "questionable vendor"). For example, we noted that the IFB included certain equipment size restrictions consistent with the dimensions of the questionable vendor's equipment that limited competition on the procurement. Specifically, during the pre-bid process, one of the eventual losing bidders questioned the equipment dimensions, noting that the restrictive size requirements were not necessary for the equipment to fit in the designated locations. In response, SGHC personnel stated that equipment within two to three inches of the specified sizes included in the IFB would be considered, but that the dimensions specified in the IFB would be preferred.

There was no documentation to justify the specified restrictive size requirement or award preference for those original dimensions, given its potential impact on a competitive procurement. Our review disclosed that the aforementioned senior management employee corresponded directly with the questionable vendor

regarding the solicitation after publication of the IFB, but prior to the receipt of bids. We found that the content of the correspondence between certain SGHC employees and one vendor raised further questions about the validity of the procurement.

Three bids were received in response to the IFB, but two of the vendors were unable to meet the IFB requirements, including equipment dimensions, and were deemed to be non-responsive. In October 2017, SGHC awarded a contract valued at \$800,000 to the questionable vendor, which had the second lowest cost bid, but was the only responsive bidder. The equipment was subsequently installed and the questionable vendor was paid in full.

State procurement law requires agencies to draft specifications to encourage maximum competition and prohibits agencies from drafting specifications in favor of a single prospective bidder. In addition, State law generally prohibits agencies from disclosing information to outside parties, including prospective bidders, after a solicitation is issued.

Recommendation 1

We recommend that SGHC

- a. ensure future specifications are drafted to encourage maximum competition and not be favorable to a single prospective bidder, as required by State procurement law;**
- b. refrain from disclosing information to any interested outside party after solicitations are issued beyond those specifically provided for in State law; and**
- c. after consultation with the Office of the Attorney General – Criminal Division, work with DGS and legal counsel to determine the appropriate action to be taken regarding this procurement.**

Finding 2

SGHC circumvented State procurement regulations and MDH procurement policies by artificially dividing procurements for goods and services to keep them under certain solicitation and delegation thresholds. In addition, SGHC did not always competitively procure or verify amounts paid on certain purchases, resulting in certain questionable activity and overpayments.

Analysis

SGHC circumvented procurement policies and State procurement regulations by artificially dividing procurements for goods and services to keep them below

certain solicitation and delegation thresholds, and made payments without an existing purchase order. In addition, our testing of such procurements found that they were not always competitively procured or that SGHC did not always verify the propriety of related invoices prior to payment. To the extent these procurements were not publicly solicited, SGHC employees responsible for procuring the goods or services were able to directly solicit, receive, and evaluate bids, and select a vendor without involvement from the MDH Office of Procurement and Support Services (OPASS) personnel.

Our review of State records disclosed that SGHC had a pattern of splitting purchases into multiple purchase orders and made additional supplemental payments to these vendors for which there were no purchase orders on file, as described in Table 1.

TABLE 1	
Summary of Split Purchases and Procurements Lacking Purchase Orders	
Procurements Circumventing Public Solicitation Requirements	
During the period from February 17, 2015 through December 31, 2018,	
<ul style="list-style-type: none"> • SGHC issued 23 purchase orders in amounts between \$14,000 and \$15,000 to 19 vendors totaling \$339,100, with related payments totaling \$259,891; and • SGHC made 299 additional payments totaling \$237,600 to 13 of these vendors for work performed during this same period that was not associated with any corresponding purchase orders. 	
Procurements Circumventing MDH's Office of Procurement and Support Services (OPASS)	
During the period from February 17, 2015 through September 30, 2017, ¹	
<ul style="list-style-type: none"> • SGHC issued 30 purchase orders in amounts between \$24,000 and \$25,000 to 17 vendors totaling \$749,100; and • SGHC made 217 additional payments totaling \$219,400 to 9 of these vendors for work performed during the same period that was not associated with any corresponding purchase orders. 	

Source: State Records

¹Effective October 1, 2017, the procurement authority delegated to SGHC by the Maryland Department of Health increased from \$25,000 to \$50,000.

We selected 10 vendors (including 6 from Table 1) with multiple purchases and disbursements of \$25,000 or less. These 10 vendors received payments totaling \$548,600 during the period from February 17, 2015 through December 31, 2018, all of which were associated with purchase orders in amounts equal to or below \$25,000 or were not associated with any purchase order. For 7 of these vendors, the circumstances suggest that SGHC may have intentionally avoided MDH

OPASS and DGS oversight and public solicitation requirements. The two management employees from our aforementioned 2008 special review had roles in certain procurements or payment activity associated with these 7 vendors.

Our testing identified procurements that were not competitively procured and inadequate verifications and documentation to support invoices. As a result, payments were not always consistent with contract terms, were processed after the purchase orders had expired, or exceeded the related purchase order maximum values. We further noted certain questionable activity and overpayments to vendors. For example, our review disclosed the following conditions:

- SGHC issued several individual \$25,000 purchase orders in fiscal years 2016, 2017, and 2018 for grounds maintenance services rather than consolidating these services into one procurement. In addition, SGHC paid the vendor \$11,300 for services during a lapse between the fiscal year 2016 and 2017 purchase orders. Furthermore, although the invoices supporting the \$11,300 in payments referenced the fiscal year 2016 purchase order, the daily rate paid was \$675 rather than the 2016 purchase order rate of \$575, resulting in an overpayment of \$1,675.

For the fiscal year 2017 purchase order, SGHC paid the vendor a total of \$73,900, exceeding the awarded purchase order amount by \$48,900. Although the original \$25,000 purchase order was competitively bid, SGHC circumvented OPASS oversight and avoided certain requirements for purchases greater than \$25,000 such as DGS approval, and the use of a competitive sealed bidding process.

- SGHC issued a \$25,000 purchase order to another vendor for tree removal services to be performed during fiscal year 2016, but paid the vendor a total of \$32,000. Although this procurement was competitively bid, similar to above, SGHC circumvented OPASS oversight and avoided certain requirements for purchases greater than \$25,000. In addition, certain invoices submitted by the vendor lacked sufficient details for SGHC to ensure their propriety (such as the size of the tree removed which, per the contract, was the basis for differing rates to be charged), and certain rates charged exceeded the rates in the purchase order. For example, SGHC paid the vendor \$1,300 to remove a tree even though the purchase order rate for the largest sized tree was \$600. The invoices also included charges for certain landscaping services (such as clearing vines) that were not within the scope of the purchase order.
- SGHC issued annual purchase orders, each totaling \$24,960, to a former employee for maintenance services to be provided in fiscal years 2015

through 2018 without soliciting any bids or publishing the awards. Payments to the former employee during the period from February 17, 2015 through June 30, 2018 totaled \$100,400. Given the total amount paid to the former employee, SGHC should have consolidated these procurements and, accordingly, SGHC circumvented OPASS oversight and avoided certain requirements for purchases greater than \$25,000. SGHC also could not provide documentation to support how it determined the hourly rate paid to the former employee and had no process to verify the number of hours reported on the related invoices.

- SGHC split a \$23,286 purchase of four exterior building doors in June 2016 into four individual solicitations, and received bids ranging from \$4,700 to \$7,650 per door. SGHC ultimately combined these solicitations into one purchase order, without complying with the public solicitation requirements for purchases expected to exceed \$15,000.

In addition, although the procurement file indicated that only two bids were received and the purchase order was awarded to the lower bidder, our review disclosed that SGHC did not consider bids received from a third vendor for two of the doors that were collectively \$1,800 less than the winning bidder. Specifically, we sighted quotes from this vendor, for the two doors, that were maintained outside of the procurement file. Furthermore, the eventual winning bidder submitted revised quotes for these two doors, increasing the price by \$516, on the same day that the only other recognized bid was received. There was no change in the scope of work and no explanation from the bidder for the increased cost. Finally, SGHC could not explain its rationale for failing to consider the vendor with the lower priced bid for what were at the time being treated as individual procurements.

State procurement regulations generally require a formal written competitive procurement and publication of the solicitation and related awards on *eMaryland Marketplace*, which was replaced by *eMaryland Marketplace Advantage* in July 2019, for procurements exceeding \$15,000. State procurement regulations further require contracts valued at more than \$50,000 to be awarded through a competitive sealed bidding process and prohibit procurements from being artificially divided to circumvent procurement requirements.¹ Finally, the MDH *Procurement Policy* requires procurements exceeding \$50,000 to be submitted to MDH OPASS for processing.

¹ Prior to October 2017, the threshold for competitive sealed bidding required by State procurement regulations was \$25,000.

Recommendation 2

We recommend that SGHC

- a. discontinue the practice of artificially dividing procurements to circumvent State procurement regulations and MDH's *Procurement Policy*;**
- b. comply with State procurement regulations for competitive procurements, including publication of solicitations and awards when required;**
- c. ensure that vendor invoices contain sufficient details to determine the propriety and reasonableness of the services performed and amounts billed, and verify the same prior to payment;**
- d. conduct thorough reviews of vendor invoices, including those related to the aforementioned payments, investigate and resolve any discrepancies, and recover any amounts that are determined to be improperly paid; and**
- e. consult with the Office of the Attorney General – Criminal Division before taking any actions related to the questionable procurements noted.**

Potential Ethics Violations

Finding 3

SGHC hired six summer interns who were family members of SGHC employees, including a management employee involved in the intern-hiring process.

Analysis

SGHC hired six summer interns who were family members of SGHC employees, including a management employee involved in the intern-hiring process. Based on a referral to our fraud, waste, and abuse hotline, we reviewed the process used by SGHC to recruit and hire interns employed during the summer of 2019. SGHC publicly advertised the intern positions on the Maryland State Online Employment Center website, with the only requirement that an applicant be a high school or college student. In response to the recruitment, SGHC received applications from 31 students and hired 15 as summer interns, each of whom earned approximately \$3,000.

Our review of the personnel files for these 15 interns disclosed that 6 were immediate family members of SGHC employees, including one whose immediate family member was a management employee who oversaw and approved the hiring of the interns. SGHC did not have any documented justification for why these individuals, including the 6 that were immediate family members, were selected over the 16 applicants that were not hired as interns.

Senior management personnel at the State Ethics Commission advised us that the SGHC management employee's involvement in the intern process and the hiring of individuals related to SGHC employees could violate several State ethics laws. The State Ethics Commission would ultimately make any final decision related to violations of the State ethics laws.

Recommendation 3

We recommend that SGHC comply with State ethics laws. Specifically, we recommend that SGHC

- a. ensure employees refrain from participating in prohibited matters involving family members,**
- b. ensure recruitment and hiring practices avoid the appearance of any preferential treatment by sufficiently documenting the basis for the hiring decision, and**
- c. refer this matter to the State Ethics Commission and take appropriate action based on the Commission's decision.**

Cash Receipts

Finding 4

SGHC did not effectively safeguard and account for its collections and ensure collections were deposited.

Analysis

SGHC did not effectively safeguard and account for its collections, and did not have an effective process to ensure collections were deposited. According to State records, SGHC collections processed during fiscal year 2018 totaled \$654,000, which included \$207,000 in patient funds and \$198,500 in cafeteria sales.

- Independent verifications of validated deposit slips to recorded collections were not properly performed. Specifically, the employee who performed the deposit verifications did not compare the validated deposit slips to the initial record of checks received for deposit (such as the cafeteria cash register report and patient fund prenumbered receipts). Rather, the validated deposit slips were compared to a secondary summary record of collections, which was prepared during the deposit process. A similar condition was commented upon in our two preceding audit reports.
- SGHC did not establish sufficient accountability over and restrict access to collections. Specifically, separate cash drawers and/or individual userids (for

the automated cash registers) were not used by the two cashiers in the cafeteria and by the two employees in the Patient Funds Office to establish accountability over the funds received. A similar condition regarding the cafeteria was commented upon in our preceding audit report. In addition, checks received by mail and forwarded to the Patient Funds Office from other SGHC locations, including the cafeteria, were left in an unsecured location accessible to any SGHC employee prior to deposit preparation. Furthermore, five employees in the Office had access to the safe where prepared deposits were stored prior to transfer to the bank.

- SGHC did not perform a documented verification that credit card collections (from cafeteria sales) were credited to the State's account. While we were advised by SGHC management that verifications were performed, no documentation was maintained. Credit card sales processed in fiscal year 2018 totaled \$21,500.

As a result of these conditions, receipts could be lost or misappropriated without detection. The Comptroller of Maryland's *Accounting Procedures Manual* requires a reconciliation of the initial record of collections to the amount deposited. Additionally, the *Manual* requires that receipts be adequately safeguarded until deposited, and that separate cash drawers be maintained for each employee responsible for collections.

Recommendation 4

We recommend that SGHC

- a. ensure that deposit verifications are performed for all collections using the initial record of receipt (repeat),**
- b. implement separate cash drawers and userids for all cashiers (repeat),**
- c. restrict access to collections prior to the preparation of the deposit and restrict access to the safe to only those employees who require access to perform their assigned job duties, and**
- d. perform documented verifications that all credit card collections are properly credited to the State's account.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Spring Grove Hospital Center (SGHC), a unit of the Maryland Department of Health (MDH), for the period beginning February 17, 2015 and ending February 18, 2019. 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 SGHC'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, procurements and disbursements, corporate purchasing cards, and payroll. Furthermore, we reviewed the recruiting and hiring of summer interns regarding a referral received on our fraud, waste, and abuse hotline. We also determined the status of the two findings included in our preceding audit report.

Our audit did not include certain support services provided to SGHC 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 audits 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 SGHC'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 various 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.

SGHC'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. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to SGHC, were considered by us during the course of this audit.

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

The response from MDH, on behalf of SGHC, 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



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

April 15, 2020

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:

Enclosed are the responses to the draft audit report from your Maryland Department of Health (MDH) - Spring Grove Hospital Center for the period beginning February 17, 2015 and ending February 18, 2019.

If you have any questions, please contact Frederick D. Doggett at 410-767-0885 or email at frederick.doggett@maryland.gov.

Sincerely,

A handwritten signature in blue ink, appearing to read "Robert R. Neall".

Robert R. Neall, Secretary
Maryland Department of Health

cc: Gregg Todd, Deputy Secretary of Operations, MDH
Dwain Shaw, MPH, JD, Chief Executive Officer, Spring Grove Hospital Center, MDH
Frederick D. Doggett, Inspector General, MDH

**Maryland Department of Health
Spring Grove Hospital Center
Agency Response Form**

Finding 1

The invitation for bid for the purchase of dietary equipment costing \$800,000 appeared to be tailored to a particular vendor.

We recommend that SGHC

- a. ensure future specifications are drafted to encourage maximum competition and not be favorable to a single prospective bidder;**
- b. refrain from disclosing information to any interested outside party after solicitations are issued; and**
- c. after consultation with the Office of the Attorney General – Criminal Division, work with DGS and legal counsel to determine the appropriate action to be taken regarding this procurement.**

Agency Response			
Background / Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.			
Recommendation a	Agree	Estimated Completion Date:	08/30/2020
Please provide details of corrective action or explain disagreement.	<p>As a result of the OIG investigation, management involved in the procurement process at the time have since resigned and/or were terminated and are no longer employed by MDH.</p> <p>SGHC has removed the procurement function from under the senior manager's division and has placed it under the Chief Financial Officer's (CFO) division where oversight and management are much more vigilant.</p> <p>In order to ensure the promotion of maximum competition, any specifications obtained and incorporated into a solicitation will be vetted through the appropriate workgroup that has reasonable subject matter knowledge of or obtains subject matter information through research or consultation.</p> <p>The implementation of this process will be memorialized in a written policy/guideline.</p>		

**Maryland Department of Health
Spring Grove Hospital Center
Agency Response Form**

Recommendation b	Agree	Estimated Completion Date:	06/30/2020
Please provide details of corrective action or explain disagreement.	Currently all procurements go through a single procurement department that is embodied in the CFO's department. Revised written procedures and guidelines will be documented and implemented to ensure the proper separations of duty are in place to preclude any conflict of interests.		
Recommendation c	Agree	Estimated Completion Date:	6/30/2020
Please provide details of corrective action or explain disagreement.	This agency has informed the AG's office via email (dated 12/30/2019) about findings #1.		

**Maryland Department of Health
Spring Grove Hospital Center
Agency Response Form**

Finding 2

SGHC circumvented State procurement regulations and MDH procurement policies by artificially dividing procurements for goods and services to keep them under certain solicitation and delegation thresholds. In addition, SGHC did not always competitively procure or verify amounts paid on certain purchases, resulting in certain questionable activity and overpayments.

We recommend that SGHC

- a. discontinue the practice of artificially dividing procurements to circumvent State procurement regulations and MDH's *Procurement Policy*;**
- b. comply with State procurement regulations for competitive procurements, including publication of solicitations and awards when required;**
- c. ensure that vendor invoices contain sufficient details to determine the propriety and reasonableness of the services performed and amounts billed;**
- d. conduct thorough reviews of vendor invoices, including those related to the aforementioned payments, investigate and resolve any discrepancies, and recover any amounts that are determined to be improperly paid; and**
- e. consult with the Office of the Attorney General – Criminal Division before taking any actions related to the questionable procurements noted.**

Agency Response			
Background / Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.			
Recommendation a	Agree	Estimated Completion Date:	6/30/2020
Please provide details of corrective action or explain disagreement.	SGHC has discontinued the practice of artificially dividing procurements. SGHC will comply with all State procurement regulations and policies including publication of solicitations and awards. SGHC has taken additional measures such as establishing a procurement integrity committee to review the procurement and to remain in compliance with OPASS regulations. We are in the process of drafting policies and procedures that will govern this committee.		
Recommendation b	Agree	Estimated Completion Date:	6/30/2020
Please provide details of corrective action or explain disagreement.	SGHC will comply with the State procurement regulations for competitive procurements, including publication of solicitations and awards on eMaryland Marketplace Advantage when required.		

**Maryland Department of Health
Spring Grove Hospital Center
Agency Response Form**

Recommendation c	Agree	Estimated Completion Date:	06/30/2020
Please provide details of corrective action or explain disagreement.	SGHC will ensure that vendor invoices contain enough details to determine the propriety and reasonableness of the services performed and amounts billed. The accounts payable supervisor will verify that the vendor invoices agree with the contract prices as indicated in the PO/contract prior to making the final payments.		
Recommendation d	Agree	Estimated Completion Date:	09/30/2020
Please provide details of corrective action or explain disagreement.	SGHC will make every effort to review the propriety of the vendor invoices, including those related to the payments indicated in this finding, investigate and resolve any discrepancies.		
Recommendation e	Agree	Estimated Completion Date:	9/30/2020
Please provide details of corrective action or explain disagreement.	We will consult with the Criminal Division of the Attorney General's office and provide all informational and documentary support they request should they decide to pursue this matter. SGHC will not take any action until it has received advisement from the Criminal Division of the AG.		

**Maryland Department of Health
Spring Grove Hospital Center
Agency Response Form**

Finding 3
SGHC hired six summer interns who were family members of SGHC employees, including a management employee involved in the intern-hiring process.

We recommend that SGHC comply with State ethics laws. Specifically, we recommend that SGHC

- a. ensure employees refrain from participating in prohibited matters involving family members,
- b. ensure recruitment and hiring practices avoid the appearance of any preferential treatment, and
- c. refer this matter to the State Ethics Commission and take appropriate action based on the Commission's decision.

Agency Response			
Background / Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.			
Recommendation a	Agree	Estimated Completion Date:	09/30/20
Please provide details of corrective action or explain disagreement.	SGHC will ensure that employees refrain from participating in prohibited matters involving family members. Any employee whose family member is or has applied for employment at SGHC, shall not participate directly or indirectly in the hiring process of the family member. Upon the discovery of direct or indirect participation of any employee into the hiring process of a family member, said employee shall be investigated and reported to the Ethics Commission. SGHC is in the process of drafting policies/procedures to be implemented.		
Recommendation b	Agree	Estimated Completion Date:	09/30/20
Please provide details of corrective action or explain disagreement.	SGHC will ensure recruitment and hiring practices are free of actual or perceived preferential treatment. SGHC is in the process of implementing a tracking mechanism for the approval of all contractual, temporary, and merit hires to ensure the avoidance of preferential treatment in the hiring process. This process will be memorialized into a new policy.		

**Maryland Department of Health
Spring Grove Hospital Center
Agency Response Form**

Recommendation c	Agree	Estimated Completion Date:	09/30/20
Please provide details of corrective action or explain disagreement.	On December 30, 2019 SGHC has referred this matter via email for a review by Criminal Division of the AG and any further investigation by the State Ethics Commission regarding the OLA finding #3. SGHC will take the appropriate action based on the Commission's decision.		

Finding 4
SGHC did not effectively safeguard and account for its collections and ensure collections were deposited.

We recommend that SGHC

- a. ensure that deposit verifications are performed for all collections using the initial record of receipt (repeat),
- b. implement separate cash drawers and userids for all cashiers (repeat),
- c. restrict access to collections prior to the preparation of the deposit and restrict access to the safe to only those employees who require access to perform their assigned job duties, and
- d. perform documented verifications that all credit card collections were properly credited to the State's account.

Agency Response			
Background / Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.			
Recommendation a	Agree	Estimated Completion Date:	06/30/20
Please provide details of corrective action or explain disagreement.	The newly appointed Accounts Clerk Supervisor has begun the independent deposit verification of the bank validated deposit slips to the initial recordation document such as the system generated pre numbered receipts for the patient funds and café collections; document such verification by initialing on the initial recordation document and on the bank validated deposit slip. The previous employee independent of cash collections was verifying the bank validated deposit slips with the check log for the mailed in collections, partially satisfied the prior audit exception.		

**Maryland Department of Health
Spring Grove Hospital Center
Agency Response Form**

Recommendation b	Agree	Estimated Completion Date:	06/30/20
Please provide details of corrective action or explain disagreement.	<p>SGHC will implement additional cash drawers and userids for all cashiers. After a careful decision by the workgroup, this agency implemented multiple cash registers for the smooth operation of Café collections and has established individual user logon ids and passwords to access the register approximately in March 2017. These registers have multiple cash drawers and the cashiers are trained in its routine operation using separate cash drawers. SGHC will ensure that two Cashiers will not be allowed to use the same cash drawer. CFO will conduct unannounced review of these cash register operations and will take corrective actions if necessary.</p> <p>A new separate secured cash drawer has been installed independent of the other cash drawers in the Patients Fund office. The backup cashiers currently utilizing this drawer in the event of transition or lunch breaks etc.</p> <p>We are in the process of memorializing this new process in policy and all relevant staff will be required to sign an affirmation that they understand the process and received a copy of the procedures.</p>		
Recommendation c	Agree	Estimated Completion Date:	6/30/20
Please provide details of corrective action or explain disagreement.	<p>The current patient funds program is old and allows only limited user access. Currently the Finance office is working with the IT department in the process of replacing the existing patient fund accounts program that would be more compatible with the present operating system and ultimately allow more accountability and independent user access.</p> <p>All checks received for deposits are secured in the cash drawers until transported to the bank; eventually restricting unauthorized access to the collections.</p> <p>Due to staff turnover, the department reallocated resources to perform daily routines which included certain cash receipt functions involved with the safe. Nonetheless, this condition has been corrected and there is only one main cashier, a newly hired employee and two additional backup cashiers, authorized to access the safe. No more than three individuals will have access to the cash safe.</p> <p>We are in the process of memorializing this process in a written procedure.</p>		

**Maryland Department of Health
Spring Grove Hospital Center
Agency Response Form**

Recommendation d	Agree	Estimated Completion Date:	6/30/20
Please provide details of corrective action or explain disagreement.	<p>Effective immediately, the credit card collection verification process is being assigned to an employee who is independent of the credit card collections verifications process.</p> <p>With this new reconciliation process, the assigned employee will record the credit card collections from the following document to a excel spreadsheet:</p> <ul style="list-style-type: none"> • Daily credit card collections from the Café Sales Summary • Bank Statement • ACH transmittal – faxed copy received from the Comptroller’s office. • DAFR 7200 – Daily Journal Register (Report from FMIS) <p>Daily, this employee will verify the accuracy of credit card collections/deposits and signs and dates the backup documents used for reconciliation. This employee will also investigate any discrepancies during this daily review and forward them to the CFO for further actions, if necessary. This employee will submit a final monthly reconciliation report to the CFO/Designee for approvals.</p> <p>We are in the process of memorializing this procedure.</p>		

AUDIT TEAM

Heather A. Warriner, CPA
Audit Manager

Sandra C. Medeiros
Senior Auditor

Kush C. Patel
Staff Auditor