

Audit Report

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**Department of Health and Mental Hygiene  
Western Maryland Hospital Center**

October 2015

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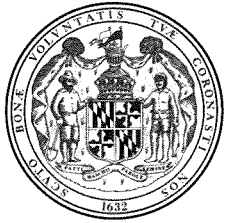
**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Warren G. Deschenaux  
Executive Director

Thomas J. Barnickel III, CPA  
Legislative Auditor

October 16, 2015

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 Western Maryland Hospital Center (WMHC) of the Department of Health and Mental Hygiene for the period beginning May 7, 2012 and ending March 29, 2015. WMHC provides chronic care and treatment to patients requiring a hospital-level rehabilitation program, long-term nursing home care, and inpatient and outpatient renal dialysis services.

Our audit disclosed that WMHC did not perform a sufficient verification of its pharmaceutical services contractor invoices prior to payment. In addition, WMHC made payments for certain contractual services without obtaining and reviewing required supporting documentation.

The Department's response to this audit, on behalf of WMHC, 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 WMHC.

Respectfully submitted,

Thomas J. Barnickel III, CPA  
Legislative Auditor



## **Background Information**

### **Agency Responsibilities**

The Western Maryland Hospital Center (WMHC), which is located in Hagerstown, provides chronic care and treatment to patients requiring a hospital-level rehabilitation program, long-term nursing home care, and inpatient and outpatient renal dialysis services for the residents of Maryland. As of June 30, 2014, WMHC had a licensed capacity of 123 inpatients and an average daily population of 57 inpatients. WMHC is accredited by The Joint Commission, which evaluates and monitors health care organizations nationwide to ensure the highest quality of care is provided. According to the State's records, WMHC's expenditures totaled approximately \$24.9 million during fiscal year 2014.

### **Change in Executive Management**

In May 2014, the Department of Health and Mental Hygiene's (DHMH) Office of Health Care Quality (OHCQ), on behalf of the federal Center for Medicare and Medicaid Services (CMS), conducted a review of WMHC's nursing home facilities and operations. This review identified serious deficiencies, resulting in substantial noncompliance with Medicaid and Medicare requirements. For example, deficiencies identified included the failure to report and investigate allegations of abuse and the failure to administer medications as ordered. WMHC paid associated fines totaling \$375,100 and was denied Medicaid and Medicare reimbursement for new nursing home admissions beginning August 7, 2014 until the deficiencies were determined to be satisfactorily corrected.

In response to the review, DHMH hired a consultant, at a cost of \$288,000, to provide recommendations to address the identified deficiencies. DHMH concluded, based on the consultant's assessments, that WMHC's executive management was not able to effectively implement the changes necessary to address the deficiencies. In June 2014, DHMH hired a contractor to provide professional personnel to replace three executive management positions to lead WMHC and implement the necessary corrective actions. On September 22, 2014, CMS and OHCQ determined that the deficiencies were satisfactorily corrected and that Medicaid and Medicare reimbursements could resume. During the period from August 7, 2014 through September 21, 2014, there were no new admissions to WMHC. As of April 2015, WMHC made payments to the contractor totaling approximately \$912,000 and the management services were extended through June 30, 2018.

## Findings and Recommendations

### Contract Monitoring

#### **Finding 1**

**The Western Maryland Hospital Center (WMHC) did not perform a sufficient verification of pharmaceutical contractor invoices prior to payment.**

#### **Analysis**

Billings from WMHC's pharmaceutical contractor were not adequately verified prior to payment. This contractor was responsible for obtaining and delivering on a routine basis pharmaceuticals ordered by physicians. WMHC was to reimburse the contractor for the actual cost of the pharmaceuticals and pay the contractor a monthly administrative fee in accordance with the contract provisions.

- WMHC did not take steps to verify that it was billed only for pharmaceutical costs that were not covered by its patients' third party insurers (such as private insurance, Medicaid, and Medicare) or were for uninsured patients. According to the contract, the contractor may only bill for over-the-counter medication and pharmaceuticals when the patient does not have insurance or the insurance does not cover the ordered medication.
- WMHC did not consistently verify that delivered and invoiced pharmaceuticals were supported by the related approved physician orders and did not obtain wholesaler invoices to verify the contractor's billed costs were appropriate. During our test of 10 pharmaceuticals purchased on two invoices, we noted one case where WMHC was billed \$5,045 for a pharmaceutical that was not supported by the quantity in the approved physician order, resulting in a \$4,245 overbilling. In this case, the quantity billed and provided by the contractor exceeded the most cost-effective dosage and the billed costs did not agree with the related wholesale price. Upon bringing this to WMHC's attention, the contractor reviewed previous billed costs for this pharmaceutical on eight other invoices and determined that similar overbillings occurred resulting in credit totaling \$25,639 for the identified overbillings. The contractor is required to fill pharmaceutical orders based on approved physician orders in the most cost-effective manner and provide its wholesaler invoices to document that the pharmaceutical costs are billed at its cost.
- WMHC did not have a process to ensure it identified and received credits on future invoices for pharmaceuticals returned. Pharmaceuticals can be returned

by WMHC (such as for expired or unused pharmaceuticals) or not accepted at delivery as permitted by the contract.

WMHC has contracted with this vendor since July 2008. The current contract is for the period from July 2014 through June 2019 for approximately \$5.1 million. According to the State's records, WMHC paid the vendor \$512,200 (\$178,100 for administrative fees and \$334,100 for pharmaceuticals) during the period from July 2014 to March 2015.

### **Recommendation 1**

**We recommend that WMHC ensure that**

- a. invoiced pharmaceutical costs are only for those costs not covered by the patients' insurance (or for patients without insurance) as specified by the contract;**
- b. delivered and invoiced pharmaceuticals (both quantity and type of pharmaceutical) agree to appropriate documentation (such as approved physician orders);**
- c. pharmaceutical costs are billed at the wholesale cost paid by the contractor; and**
- d. applicable invoice credits are identified and received for all pharmaceuticals returned to the contractor, including the \$25,639 credit for the identified overbilling.**

### **Finding 2**

**WMHC did not adequately review and approve labor hours billed by a contractor providing professional management personnel.**

### **Analysis**

WMHC did not adequately review and approve labor hours billed by a contractor that provided personnel for three executive management positions. As mentioned earlier in this report, WMHC hired a contractor in June 2014 to provide professional management personnel services. However, we noted that timesheets supporting the contractor's invoices were not approved by WMHC as required by the contract. Although we were advised that the timesheets were approved by individuals working for the contractor, WMHC could not tell us who the individuals were or how the individuals determined the accuracy of the timesheets.

In addition, WMHC did not always obtain adequate documentation for the hours billed by the contractor. Our test of two invoices totaling approximately \$218,800 disclosed that timesheets did not always exist or support the hours worked for two

individuals. For one of these individuals, representing \$12,000 of the amounts invoiced, timesheets were not provided. For the other individual, the hours worked as recorded on the timesheets only supported \$16,800 of the \$20,160 invoiced.

According to State records, as of April 2015, WMHC had made payments to the management personnel contractor totaling approximately \$912,000. On June 3, 2015, DHMH obtained approval from the Board of Public Works to continue using this contractor for executive management services for three more years, at a total contract cost of approximately \$2.6 million. Under this new contract, payments to executive management are based on an annual firm fixed price rather than based on hourly labor rates. We were advised by DHMH management that it plans to continue this arrangement for the immediate future and there are no current plans to hire state employees for executive management positions.

## **Recommendation 2**

**We recommend that WMHC**

- a. ensure that invoiced services agree to contract terms and supporting documentation, as applicable, prior to payment; and**
- b. perform a review of all previously paid invoices to determine if hours billed by the contractor were supported by the hours worked and take corrective action (such as requesting approved timesheets or a refund for any unsupported billings), as necessary.**

## **Audit Scope, Objectives, and Methodology**

We have conducted a fiscal compliance audit of the Western Maryland Hospital Center (WMHC) of the Department of Health and Mental Hygiene (DHMH) for the period beginning May 7, 2012 and ending March 29, 2015. 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 WMHC'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 procurements, disbursements, and payroll.

Our audit did not include billing and collection support services provided to WMHC by Deer's Head Hospital Center for renal dialysis and by DHMH's Division of Reimbursements for inpatient/outpatient care services. These support services are included in the scope of our audits of the Deer's Head Hospital Center and DHMH's Office of the Secretary.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of WMHC'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). 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 audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

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

The response from DHMH, on behalf of WMHC, 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

*Larry Hogan, Governor - Boyd Rutherford, Lt. Governor - Van Mitchell, Secretary*

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Revised response  
October 15, 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 – Western Maryland Hospital Center for the period beginning May 7, 2012 and ending March 29, 2015. 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 the 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 Susan Steinberg, Acting Inspector General, at (410) 767-5784.

Sincerely,

Van T. Mitchell  
Secretary

Enclosure

cc: Michael Reyka, Interim Executive Director, WMHC, DHMH  
David Davis, Chief Operating Officer, WMHC, DHMH  
Kelly Edmonds, Chief Financial Officer, WMHC, DHMH  
Howard M. Haft, M.D., Deputy Secretary, Public Health, DHMH  
Shawn Cain, Chief of Staff, DHMH  
Jennifer Newman Barnhart, Acting Chief of Staff, Public Health, DHMH  
Elizabeth Morgan, Assistant Inspector General, DHMH  
Susan Steinberg, Acting Inspector General, DHMH  
Pamela S. Leonard, Chief, Internal Audits, DHMH

## **Findings and Recommendations**

### **Contract Monitoring**

#### **Finding 1**

**The Western Maryland Hospital Center (WMHC) did not perform a sufficient verification of pharmaceutical contractor invoices prior to payment.**

#### **Recommendation 1**

**We recommend that WMHC ensure that**

- a. invoiced pharmaceuticals costs are only for those costs not covered by the patients' insurance (or for patients without insurance) as specified by the contract;**
- b. delivered and invoiced pharmaceuticals (both quantity and type of pharmaceutical) agree to appropriate documentation (such as approved physician orders);**
- c. pharmaceutical costs are billed at the wholesale cost paid by the contractor; and**
- d. applicable invoice credits are identified and received for all pharmaceuticals returned to the contractor, including the \$25,639 credit for the identified overbilling.**

#### **Administration's Response:**

The Administration concurs with the recommendations below.

- a. The Center will ensure that the invoiced pharmaceuticals costs only include those costs for hospital inpatients, uninsured patients/residents, or those costs not covered by covered by the SNF residents' insurance. The review and verification will be documented.
- b. The Center will ensure the delivered and invoiced drug quantities and types agree with the resident/patient administration record. The Center will ensure the delivered and invoiced drug quantities and types agree with the resident/patient administration record to identify the drugs that were administered to the patient. The drugs (with the exception of controlled substances) that were delivered but not administered to the patient will be returned to the vendor for credit. This review and verification will be documented.
- c. The Center will ensure pharmaceutical costs are billed at the wholesale cost paid by the contractor. This review and verification will be documented.

- d. The Center will ensure that applicable credits are identified and received by the Contractor. This process will be documented. The Center has received the \$25,639 credit previously identified.

**Finding 2**

**WMHC did not adequately review and approve labor hours billed by a contractor providing professional management personnel.**

**Recommendation 2**

**We recommend that WMHC**

- a. **ensure that invoiced services agree to contract terms and supporting documentation, as applicable, prior to payment; and**
- b. **perform a review of all previously paid invoices to determine if hours billed by the contractor were supported by the hours worked and take corrective action (such as requesting approved timesheets or a refund for any unsupported billings), as necessary.**

**Administration's Response:**

The Administration concurs with the Finding.

- a. The Administration concurs with the recommendation. The Center will ensure that invoiced services agree to the contract terms and supporting documentation, as applicable, prior to payment.
- b. The Administration concurs with this recommendation. The Center will perform a review of all previously approved invoices to determine if hours billed by the contractor were supported by an approved time sheet and take corrective action for any that were not, including requesting approved time sheets or obtaining a refund for any unsupported billings.

**AUDIT TEAM**

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