

Audit Report

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**Maryland Department of Health  
Eastern Shore Hospital Center**

November 2018

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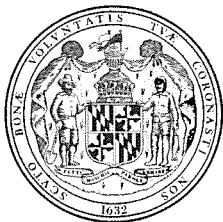
**OFFICE OF LEGISLATIVE AUDITS  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY**

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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber  
Executive Director

Thomas J. Barnickel III, CPA  
Legislative Auditor

November 19, 2018

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee  
Delegate C. William Frick, Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Eastern Shore Hospital Center (ESHC) of the Maryland Department of Health (MDH) for the period beginning March 31, 2014 and ending May 20, 2018. ESHC provides psychiatric care and related services to patients from the nine counties on Maryland's Eastern Shore.

Our audit disclosed that ESHC did not have adequate procedures to ensure the propriety of time recorded in the Statewide Personnel System by one individual on behalf of numerous other employees.

MDH's response to this audit, on behalf of ESHC, 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.

Respectfully submitted,

Gregory A. Hook, CPA  
Legislative Auditor



## **Background Information**

### **Agency Responsibilities**

The Eastern Shore Hospital Center (ESHC), located in Cambridge, Maryland, provides comprehensive psychiatric care and related services to patients from the nine counties on Maryland's Eastern Shore. The services provided include inpatient treatment and community service programs. During fiscal year 2017, ESHC, which is accredited by The Joint Commission, had a licensed capacity of 80 inpatients, a budgeted average daily population of 71 inpatients, and an actual daily population of 66 inpatients. In March 2018, ESHC converted its assisted living unit to an acute care unit which increased its licensed capacity to 84 inpatients. According to the State's records, ESHC's fiscal year 2017 operating expenditures totaled approximately \$19.8 million.

### **Status of Finding From Preceding Audit Report**

Our audit included a review to determine the status of the finding contained in our preceding audit report dated July 25, 2014. We determined that ESHC satisfactorily addressed this finding.

## **Findings and Recommendations**

### **Payroll**

#### **Finding 1**

**ESHC did not have adequate procedures in place to ensure the propriety of time recorded by one individual into the Statewide Personnel System on behalf of numerous other employees.**

#### **Analysis**

ESHC did not have adequate procedures in place to ensure the propriety of time recorded into the Statewide Personnel System (SPS) by a designated timekeeper on behalf of numerous other employees (nurses). Specifically, the work time recorded by the timekeeper was based on staffing schedules, rather than actual time worked, and was not subject to adequate review and approval.

While ESHC management advised us that employees were required to record their actual work time directly in SPS, the timekeeper entered work time into SPS for employees who failed to do so when due. For example, during April 2018, the

timekeeper recorded time for 87 employees. However, the timekeeper entered time into SPS based on staffing schedules, which did not necessarily reflect the actual hours worked by the employees, and these employees did not prepare timesheets.

Furthermore, the time entered by the timekeeper was not subject to adequate review and approval. Specifically, the respective employees were to review the time entered in SPS and make any necessary adjustments to reflect the actual hours worked. However, our review of 1 SPS timesheet for 11 employees in 4 pay periods with related payments of \$33,915 disclosed that 7 SPS timesheets were not subsequently reviewed by the respective employees. ESHC management advised us that the time entered in SPS was also reviewed by another independent ESHC employee. However, this employee had no direct knowledge of the employees' actual work time and did not ensure the times entered into SPS were proper.

As a result, there is a lack of assurance that the time used to calculate payroll payments reflected the actual hours worked by the employees. According to State records, during calendar year 2017 there were 247 ESHC employees with payroll costs totaling approximately \$9.4 million.

#### **Recommendation 1**

**We recommend that ESHC ensure that time entered into SPS by the employee or timekeeper reflects actual hours worked and is subject to review and approval by appropriate supervisory personnel.**

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

We have conducted a fiscal compliance audit of the Eastern Shore Hospital Center (ESHHC) of the Maryland Department of Health (MDH) for the period beginning March 31, 2014 and ending May 20, 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 ESHC'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 patient funds, procurements and disbursements, corporate purchasing cards, and payroll. We also determined the status of the finding included in our preceding audit report.

Our audit did not include certain support services provided to ESHC by MDH. 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 ESHC'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.

ESHC'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.

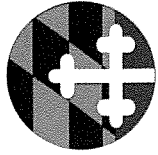
Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

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 ESHC'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 ESHC that did not warrant inclusion in this report.

The response from MDH, on behalf of ESHC, 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*

November 5, 2018

Mr. Thomas J. Barnickel III, CPA  
Legislative Auditor  
Office of Legislative Audits  
301 W. Preston Street  
Baltimore, MD 21201

Dear Mr. Barnickel,

The Maryland Department of Health (MDH) Eastern Shore Hospital Center (ESHC) received your draft audit report dated October 30, 2018. It covered the period beginning March 31, 2014 and ending May 20, 2018. Please see the attached report which documents MDH/ESHC's formal response to the finding and recommendation.

If you have any questions or require additional information, please do not hesitate to contact me at 410-767-4639 or Frederick D. Doggett, Inspector General, at 410-767-0885.

Sincerely,

Robert R. Neall  
Secretary

Enclosure

cc: Dennis R. Schrader, Chief Operating Officer, MDH  
Frederick D. Doggett, Inspector General, MDH

**RESPONSE TO THE OFFICE OF LEGISLATIVE AUDITS  
DRAFT AUDIT REPORT  
EASTERN SHORE HOSPITAL CENTER (2018)**

**November 5, 2018**

**Finding 1**

**ESHC did not have adequate procedures in place to ensure the propriety of time recorded by one individual into the Statewide Personnel System on behalf of numerous other employees.**

**Recommendation 1**

**We recommend that ESHC ensure that time entered into SPS by the employee or timekeeper reflects actual hours worked and is subject to review and approval by appropriate supervisory personnel.**

**ESHC's Response**

The Eastern Shore Hospital Center (ESHC) concurs with the audit finding and will immediately implement corrective actions. ESHC will work with the Maryland Department of Health's Office of Human Resources to implement a time entry and submission process that is consistent with the requirements of the State's accounting standards. ESHC will correct the deficiency by devising a paper-based system that will augment the limitations of the computerized system that created the finding. Using paper forms, clerical staff, and Human Resources specialists ESHC will assume responsibility for entry, submission, and approval of timesheet data in the Statewide Personnel System to reflect the actual hours worked. These corrective actions will initially focus on addressing deficiencies with the 24/7 Nursing Staff scrutinized by OLA. This process will replicate systems at other Behavioral Health Administration facilities previously audited by OLA. ESHC anticipates the new process will be fully implemented starting on January 30, 2019.

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