

Audit Report

**Maryland Department of Health
Western Maryland Hospital Center**

June 2019



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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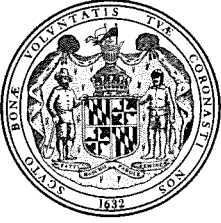
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

June 20, 2019

Senator Craig J. Zucker, Senate Chair, Joint Audit Committee
Delegated, Shelly L. Hettleman, House 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 Maryland Department of Health (MDH) for the period beginning March 30, 2015 and ending January 1, 2019. WMHC provides chronic care and treatment to patients requiring a hospital-level rehabilitation program, long-term nursing home care, and inpatient renal dialysis services.

Our audit disclosed that WMHC did not comply with procurement laws and regulations when purchasing fresh produce and medical and dietary supplies. Specifically, frequent purchases of fresh produce from one vendor totaling approximately \$755,000 were not competitively procured, and medical and dietary supplies totaling approximately \$887,000 were purchased from a multistate purchasing organization without obtaining approval by the Department of General Services and MDH, as required. We also noted that supervisory reviews of corporate purchasing card activity were not sufficiently comprehensive.


Finally, our audit included a review to determine the status of the two findings contained in our preceding audit report. We determined that WMHC satisfactorily addressed these findings.

MDH's response to this audit, on behalf of WMHC, is included as an appendix to this report. We reviewed the response and noted general agreement to our findings and related recommendations, and we will advise the Joint Audit Committee of any outstanding issues that we cannot resolve with MDH.

We wish to acknowledge the cooperation extended to us during the audit by WMHC. We also wish to acknowledge MDH's and WMHC'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 style with a large, stylized 'G' and 'H'.

Gregory A. Hook, 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 renal dialysis services. WMHC 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, WMHC had a licensed capacity of 123 inpatients and an average daily population of 49 inpatients. According to the State's records, WMHC's expenditures totaled approximately \$24.1 million during fiscal year 2018.

Update on WMHC Executive Management

In our preceding audit report, we commented that, in May 2014, a review of WMHC's nursing home facilities and operations conducted by the Maryland Department of Health's (MDH) Office of Health Care Quality (OHCQ), on behalf of the federal Centers for Medicare and Medicaid Services (CMS), identified serious deficiencies resulting in substantial noncompliance with Medicaid and Medicare requirements. WMHC paid associated fines totaling \$375,100 and was denied Medicaid and Medicare reimbursement for new nursing home admissions from August 7, 2014 until September 22, 2014, when CMS and OHCQ determined the deficiencies to be satisfactorily corrected.

We also noted in our preceding audit report that MDH concluded that WMHC's executive management was unable to effectively implement the changes necessary to address the deficiencies and, therefore, hired a contractor to provide professional personnel to replace three WMHC executive management positions and implement the necessary corrective actions. WMHC made payments to the contractor totaling \$3.3 million for services provided during the period from June 2014 through June 2018. The contract for these services ended June 30, 2018, and the three management positions have been filled by State employees.

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 16, 2015. We determined that WMHC satisfactorily addressed both of these findings.

Findings and Recommendations

Purchases and Disbursements

Finding 1

The Western Maryland Hospital Center (WMHC) did not procure fresh produce and certain medical and dietary supplies in accordance with State procurement regulations and Maryland Department of Health (MDH) policies.

Analysis

WMHC did not procure fresh produce and certain medical and dietary supplies in accordance with State procurement regulations and MDH policies.

- During the period from April 2015 through December 2018, WMHC made repeated purchases of fresh produce from one vendor, totaling \$755,427, without any public solicitation, competitive bids, written contracts, and control agency approval as required by State regulations. Consequently, there is a lack of assurance that WMHC obtained these items at the best price. State procurement regulations generally require a formal written competitive procurement and publication of the solicitation on *eMaryland Marketplace* for procurements exceeding \$15,000, and control agency approval, such as by the Board of Public Works, for larger procurements. WMHC management advised us the purchases were made under a statewide contract procured by the Department of General Services (DGS). However, the DGS contract had expired in 2010, and there was no statewide contract with the vendor during our audit period.
- WMHC did not obtain DGS and MDH approval for the purchases of medical and dietary supplies from two vendors through Intergovernmental Cooperative Purchasing Agreements (ICPA) as required by State regulations and MDH policies. WMHC also did not prepare a determination that using an ICPA was in the best interest of the State. During our audit period, WMHC purchases from the two vendors through the ICPAs totaled \$491,836 and \$395,640 for medical and dietary supplies, respectively. State regulations only authorize primary procurement units, such as DGS, to participate in an ICPA. In addition, once procured by DGS, MDH written policy requires its facilities to obtain MDH approval to use an ICPA and to prepare a determination that purchases from an ICPA are in the best interest of the State. Our test of one purchase from each of these vendors, totaling \$2,250 and \$2,538, respectively,

disclosed that the prices paid appeared reasonable based on an Internet search of current market pricing for the items purchased.

Recommendation 1

We recommend that WMHC

- a. comply with State procurement regulations by publicly soliciting competitive bids, executing written contracts, and obtaining control agency approval for procurements, where applicable; and**
- b. refrain from purchasing goods through ICPAs that have not been procured or approved in accordance with State regulations and MDH policies, including those noted above.**

Finding 2

Supervisory reviews of corporate purchasing card (CPC) activity did not always ensure that the billed services were received, and did not make use of available Level-3 data to help ensure the propriety of the purchases, as required.

Analysis

Supervisory reviews of CPC activity did not always ensure that the billed services were received, and did not make use of available Level-3 data to help ensure the propriety of the purchases, as required. During the period from July 1, 2015 through November 23, 2018, WMHC processed 7,109 CPC transactions totaling \$4.8 million, which were primarily made by two cardholders.

- Supervisory reviews of monthly CPC activity logs did not always ensure the related services were received. We tested 25 CPC payments totaling \$71,211 on the aforementioned two cardholders' monthly activity logs, which had been approved by supervisory personnel. Our test disclosed that, while the receipt of commodities purchased was documented, for 4 of the 6 payments for services tested totaling \$7,899, there was no indication that the billed services had been received. During our audit fieldwork, we were able to sight evidence that the four services were received.
- Supervisory reviews of monthly CPC activity log did not use available Level-3 data to ensure the propriety of the purchases as required. During the period from July 1, 2015 through November 23, 2018, we determined that Level-3 data were available for 3,429 of WMHC's CPC transactions totaling \$2.4 million. WMHC management advised us that they reviewed the Level-3 data independent of the monthly reviews of the activity logs, but there was no documentation of the reviews.

The Comptroller of Maryland's *Corporate Purchasing Card Program Policy and Procedures Manual* requires agencies to ensure that cardholders verify all purchases and sign receipts. The *Manual* further requires agencies to verify Level-3 data to CPC transaction logs and document monthly reviews of Level-3 data as part of transaction monitoring. Level-3 data, which are provided by certain merchants, consist of detailed descriptions of items purchased and provide supervisory personnel with additional information to help detect questionable purchases.

Recommendation 2

We recommend that WMHC comply with the *Corporate Purchasing Card Program Policy and Procedures Manual*. Specifically, we recommend that WMHC ensure that supervisors conducting reviews of monthly activity logs

- a. verify that all services paid for were received, and**
- b. use available Level-3 data as required.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Western Maryland Hospital Center (WMHC) of the Maryland Department of Health (MDH) for the period beginning March 30, 2015 and ending January 1, 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 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, corporate purchasing cards, and payroll. We also determined the status of the findings included in our preceding audit report.

Our audit did not include billing and collection support services provided to WMHC by Deer's Head Hospital Center for renal dialysis and other support

services (such as certain payroll and purchasing functions, maintenance of accounting records, and related fiscal functions) provided by MDH's Office of the Secretary and Other Units. These support services are included in the scope of our audits of the Deer's Head Hospital Center and 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 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), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these sources were sufficiently reliable for the purposes the data were used during this audit. Finally, we performed other auditing procedures that we considered necessary to achieve our 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.

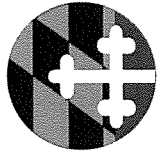
Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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 a finding 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 report also includes findings regarding 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 MDH, 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 MDH regarding the results of our review of its response.

APPENDIX



MARYLAND
Department of Health

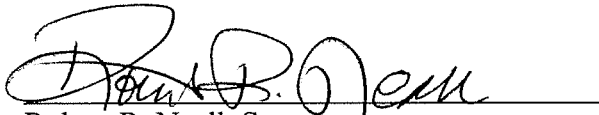
Larry Hogan, Governor · Boyd K. Rutherford, Lt. Governor · Robert R. Neall, Secretary

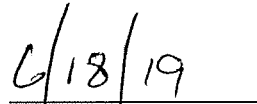
June 17, 2019

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

Dear Mr. Hook:

We are providing the attached responses to the draft report from your fiscal compliance audit of the Western Maryland Hospital Center for the period beginning March 30, 2015 and ending January 1, 2019. If you have any questions, please feel free to contact me or Inspector General Frederick D. Doggett at 410-767-0885.


Robert R. Neall, Secretary


Date

cc. Frederick D. Doggett, Inspector General, MDH
Sha S. Brown, Assistant Inspector General – Audits, MDH
Kelly Devilbiss, CEO, Western Maryland Hospital Center

**Maryland Department of Health
Western Maryland Hospital Center**

Agency Response Form

Purchases and Disbursements

Finding 1

The Western Maryland Hospital Center (WMHC) did not procure fresh produce and certain medical and dietary supplies in accordance with State procurement regulations and Maryland Department of Health (MDH) policies.

We recommend that WMHC

- a. comply with State procurement regulations by publicly soliciting competitive bids, executing written contracts, and obtaining control agency approval for procurements, where applicable; and**
- b. refrain from purchasing goods through ICPAs that have not been procured or approved in accordance with State regulations and MDH policies, including those noted above.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 1a	Agree	Estimated Completion Date:	08/01/2019
Please provide details of corrective action or explain disagreement.	WMHC concurs with the recommendation. WMHC is obtaining competitive pricing for fresh produce on a monthly basis from vendors. WMHC has compiled a listing of medical supplies that would require a competitively bid contract. The MD Department of General Services (DGS) is currently in the process of soliciting and awarding a statewide contract for medical supplies. We are awaiting the award of that contract as many of the supplies that we purchase will be included in this statewide contract. In the meantime, WMHC is comparing prices for medical supplies from vendors.		
Recommendation 1b	Agree	Estimated Completion Date:	05/01/2019
Please provide details of corrective action or explain disagreement.	WMHC concurs with the recommendation. WMHC will refrain from purchasing goods through ICPAs that have not been procured or approved in accordance with State regulations and MDH policies. WMHC will utilize the approved policies and regulations to procure goods and services.		

**Maryland Department of Health
Western Maryland Hospital Center**

Agency Response Form

Finding 2

Supervisory reviews of corporate purchasing card (CPC) activity did not always ensure that the billed services were received and did not make use of available Level-3 data to help ensure the propriety of the purchases, as required.

We recommend that WMHC comply with the *Corporate Purchasing Card Program Policy and Procedures Manual*. Specifically, we recommend that WMHC ensure that supervisors conducting reviews of monthly activity logs

- a. verify that all services paid for were received, and
- b. use available Level-3 data as required.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 2a	Agree	Estimated Completion Date:	05/01/2019
Please provide details of corrective action or explain disagreement.	WMHC concurs with the recommendation. All invoices will be signed by the individual who has confirmed receipt of the services.		
Recommendation 2b	Agree	Estimated Completion Date:	07/01/2019
Please provide details of corrective action or explain disagreement.	WMHC concurs with the recommendation. Level 3 data is distributed to credit card holders and their supervisor/manager. The Level 3 data will be attached to the Credit Card Activity Log form. Signatures on the Credit Card Activity Log form denote that the Level 3 data has been reviewed in coordination with the credit card reconciliation. Credit card holders, supervisors/managers, and fiscal staff will be re-educated on Level 3 review.		

AUDIT TEAM

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