

Audit Report

**Department of Health and Mental Hygiene
Springfield Hospital Center**

October 2015



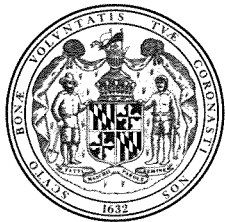
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

October 6, 2015

Warren G. Deschenaux
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

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 Springfield Hospital Center (SHC) of the Department of Health and Mental Hygiene (DHMH) for the period beginning July 29, 2011 and ending January 27, 2015. SHC is a State-operated psychiatric facility within the Department's Behavioral Health Administration and provides acute, sub-acute, and long-term inpatient services to admitted Maryland residents.

Our audit disclosed that SHC had not established proper controls over maintenance contracts, resulting in questionable activity with one contractor. Specifically, one SHC employee controlled virtually all aspects of the procurement and related invoice approvals for maintenance contracts and awarded 33 contracts for electrical, plumbing, and construction services and supplies totaling approximately \$439,300 to this contractor. Each contract awarded was for an amount less than \$25,000, which is the threshold over which approval is required by DHMH's Office of Procurement and Support Services. These matters have been referred to the Office of the Attorney General.

The Department's response to this audit, on behalf of SHC, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by SHC.

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities

Springfield Hospital Center (SHC) is a State-operated psychiatric facility located in Sykesville, Maryland. SHC operates as a unit of the Department of Health and Mental Hygiene's Behavioral Health Administration and provides acute, sub-acute, and long-term inpatient services to State residents. SHC is accredited by The Joint Commission, which evaluates and monitors health care organizations nationwide to ensure the highest quality of care is provided. During fiscal year 2014, SHC had a licensed capacity of 522 inpatients, a budgeted average daily population of 228, and an actual average daily population of 225. According to the State's records, SHC's operating expenditures totaled approximately \$71.2 million during fiscal year 2014.

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 February 3, 2012. We determined that SHC satisfactorily addressed this finding.

Findings and Recommendations

Maintenance Contracts

Finding 1

A management employee exercised virtually complete control over all aspects of the procurement and related invoice approvals for maintenance contracts, resulting in questionable activity with one contractor.

Analysis

A Springfield Hospital Center (SHC) management employee controlled virtually all aspects of the procurement and related invoice approvals for maintenance contracts, resulting in questionable activity with one contractor with whom the employee appeared to have conducted personal business. Specifically, there was a lack of separation of duties as this employee handled all aspects of the procurement process for maintenance contracts (including the solicitation of bids, evaluation of bids, and selection of the winning bidder), monitored the work, and approved the related invoices for payment. During the period from July 2011 to January 2015, this employee awarded 33 contracts for electrical, plumbing, and

construction services and supplies totaling approximately \$439,300 to this contractor and approved the related invoices for payment. These contracts represented more than one-third of the total dollar value of all maintenance contracts awarded during this same period. Furthermore, each contract awarded was for an amount less than \$25,000, which is the threshold over which approval is required by the Department of Health and Mental Hygiene's (DHMH) Office of Procurement and Support Services (OPASS).

Our review of the 33 contracts disclosed numerous instances of SHC's failure to comply with procurement regulations and other questionable activities that appeared to compromise the integrity and competitive nature of the procurement process.

- Bid solicitations and the resulting contract awards for seven contracts totaling \$149,600 (each valued at amounts greater than \$15,000) were not publically advertised on *eMaryland Marketplace*, as required. State procurement regulations require that bid solicitations and resulting contract awards exceeding \$15,000 be publically advertised on *eMaryland Marketplace*. Thirteen of the 33 contracts reviewed totaling \$281,430 were valued at amounts greater than \$15,000.
- Our review of the bid information related to six contracts, totaling \$92,800, for plumbing and construction services disclosed certain anomalies that raised questions about the validity of the bids and whether a competitive process was, in fact, used to select the winning bidder. We noted that three of the six contractors who purportedly submitted losing bids for these contracts were not in good standing with the State Department of Assessments and Taxation (SDAT) at the time some bids were submitted. In addition, three of the contractors (including two mentioned above) appeared to have connections to the winning contractor. For example, SDAT records indicated that the addresses for two of the contractors were in very close proximity to the address of the winning contractor or to the winning contractor's relative. Furthermore, 9 of the 13 losing bids did not contain the bidder's contact information (such as complete address or phone number) and the bid forms used by two of the contractors were similar in appearance. Finally, for one contract valued at \$14,800, the bid price on the winning contractor's bid was altered to decrease the amount by \$1,200 after it was received by SHC—making it the lowest bid by a difference of \$100.
- Three procurements for electric distribution and emergency generator maintenance were artificially split and were awarded as six contracts, totaling approximately \$72,500, in an apparent attempt to avoid either OPASS

approval or *eMaryland Marketplace* bid solicitation requirements. Specifically, the first year and optional second year for the same service was split into two contracts instead of being combined into a single contract in accordance with State procurement regulations. For example, a two-year electrical distribution maintenance procurement for \$36,660 was split into two annual contracts, each for \$18,330.

- Four procurements to obtain and deliver street light poles were questionable. Specifically, the related solicitations did not specify the number of street light poles needed. Rather, the solicitations were structured so that the bidder would specify how many street light poles could be supplied without exceeding a cost of \$25,000, the dollar amount requiring OPASS approval. Four contracts totaling \$96,100 were awarded during the period from September 2011 to October 2014 using this solicitation process and each contract resulted in fewer street light poles being provided than the original contract which was for 16 poles.
- The management employee approved payments totaling \$19,000 for electrical transformer repair work, but the related quote was only \$12,500. SHC could not provide us with an explanation for the \$6,500 difference.

SHC was unaware of these questionable activities until our audit findings were brought to its attention in May 2015. We were advised by SHC that the employee responsible for these questionable activities resigned in lieu of termination in June 2015. We referred these matters 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.

According to State records, SHC paid the aforementioned contractor approximately \$523,300 during the period from July 2011 to January 2015. This amount included payments related to these contracts totaling \$434,750 and payments for additional maintenance related goods and services, in amounts less than \$5,000, using the State’s corporate purchasing credit card totaling \$88,550.

Recommendation 1

We recommend that SHC

- a. properly separate the duties over the procurement, contract monitoring, and invoice approval functions for maintenance services; and**
- b. ensure procurements are performed in accordance with State regulations and DHMH requirements.**

We advised SHC on accomplishing the necessary separation of duties using existing personnel.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Springfield Hospital Center (SHC) of the Department of Health and Mental Hygiene for the period beginning July 29, 2011 and ending January 27, 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 SHC'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, payroll, corporate purchasing cards, and pharmaceutical inventories. We also determined the status of the finding contained in our preceding audit report.

To accomplish our objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of SHC'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 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.

SHC'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 that we consider to be a significant deficiency in the design or operation of internal control that could adversely affect SHC's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. This finding is also regarded as a significant instance of noncompliance with applicable laws, rules, or regulations. Another less significant finding was communicated to SHC that did not warrant inclusion in this report.

The Department's response, on behalf of SHC, to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the Department regarding the results of our review of its response.

APPENDIX



STATE OF MARYLAND

DHMH

Maryland Department of Health and Mental Hygiene

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

September 25, 2015

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

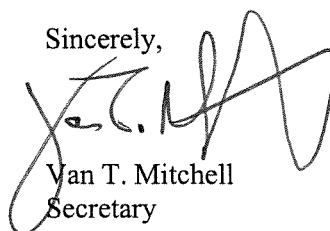
Dear Mr. Barnickel:

Thank you for your letter regarding the draft audit report for the Springfield Hospital Center of the Department of Health and Mental Hygiene for the period beginning July 29, 2011 and ending January 27, 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 OIG'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, Esq, Acting Inspector General at 410-767-5784.

Sincerely,



Van T. Mitchell
Secretary

cc: Gayle M. Jordan-Randolph, M.D. Deputy Secretary for Behavioral Health, DHMH
Rianna P. Matthews-Brown, J.D., Chief of Staff for Behavioral Health, DHMH
Albert A. Zachik, M.D., Acting Executive Director, Behavioral Health Administration, DHMH
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Findings and Recommendations

Finding 1

A management employee exercised virtually complete control over all aspects of the procurement and related invoice approvals for maintenance contracts, resulting in questionable activity with one contractor.

Auditor's Recommendation:

We recommend that SHC

- a. properly separate the duties over the procurement, contract monitoring, and invoice approval functions for maintenance services;**
- b. ensure procurements are performed in accordance with State regulations and DHMH requirements.**

Administration's Response:

- a. SHC concurs with the recommendation and has properly separated the duties over the procurement, contract monitoring, and invoice approval functions for maintenance services. SHC immediately pursued appropriate administrative action to ensure accountability when it was discovered that established procurement policies and procedures were not being followed. Springfield has strengthened its internal control processes through policy, education, and monitoring. Springfield developed a new Policy on Procurement of Commodities, Equipment and Services that establishes a separation of duties and stronger internal controls. Under the new policy, all procurement activity above the credit card level will be performed by the Director of Purchasing (commodities/equipment) or the Director of Contracts (services). The Chief Financial Officer will be responsible to ensure that the proper approval has been obtained for payment processing and that payments do not exceed the amount of the contract, requisition or purchase order. This new policy was implemented on September 1, 2015.
- b. SHC concurs with the recommendation. The new policy will ensure that all State regulations and DHMH requirements for procurement are being followed. The Small Procurement Quick Reference Chart has been incorporated into the policy to assist employees with some of these regulations and requirements. All support services department heads will be met with individually and instructed of importance of diligence when making purchases/contracts. Additionally, all SHC personnel involved in the procurement process will be required to review the new policy annually and acknowledge their understanding of the policy with their signature and date. All education will be in place by October 1, 2015. An online requisition system is being developed that will aid in the oversight process. Additionally, a listing of all contracts, with vendor name and amounts will be established. The CEO and COO will review list monthly for questionable activities. The Office of Inspector General, Division of Internal Audits will monitor for compliance.

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