Audit Report

Department of Health and Mental Hygiene
Community and Public Health Administration

January 2002

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January 22, 2002

Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee  
Delegate Samuel I. Rosenberg, Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Community and Public Health Administration of the Department of Health and Mental Hygiene for the period beginning September 22, 1998 and ending June 30, 2001.

Our audit results raised concerns about the Administration’s management of the programs funded by the Cigarette Restitution Fund. These programs were established by law to reduce tobacco use, tobacco-related diseases and cancer deaths in the State. Deficiencies in the Administration’s oversight procedures, if not corrected, could impair efforts to accurately assess program effectiveness as required by State law. For example, we noted shortcomings in the process used by a contractor to gather baseline data on tobacco use statewide, which are intended to be used to measure the overall success of the programs designed to reduce tobacco use. The Administration also did not have a plan to perform timely audits of grantees and contractors who receive significant funding under the programs, and to monitor the services they perform. It is estimated that funding for these programs will approximate $750 million for the ten-year period ending 2010. Finally, certain performance benchmarks that will be needed to fully evaluate the programs and provide any recommended changes to the Governor and the General Assembly had not been established.

Our audit also disclosed that the Administration did not fully comply with State budget closeout requirements. Year-end transactions that eliminated a $3 million General fund deficit at June 30, 2001 could not be supported. The Administration also did not seek Federal reimbursement timely for certain treatment costs incurred on behalf of recipients who were enrolled in the Medical Assistance Program. Instead these costs were charged to the State-funded Breast
and Cervical Cancer Program and at least $140,000 in Federal funds was lost as a result. Furthermore, the Administration failed to apply the authorized discount to certain hospital billings resulting in overpayments of $488,000.

Finally, a number of deficiencies were noted during our review of two local health departments, for which the Administration provides oversight. For example, proper controls were not established in two local health departments to ensure all collections were deposited.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor
# Table of Contents

**Executive Summary**

**Background Information**

- Agency Responsibilities
- Reorganization
- Federal Government Disallowed $1.7 Million in Costs
- Primary Care Program Overpayments
- Current Status of Findings From Preceding Audit Report

**Findings and Recommendations**

**Cigarette Restitution Fund**

- Finding #1 – The Administration Did Not Properly Monitor the Contractor Performing the Baseline Tobacco Study and the Related Report Did Not Include All Required Information
- Finding #2 – A Comprehensive Plan Had Not Been Established to Monitor and Audit Funds Provided to Grantees and Contractors
- Finding #3 - The Administration Had Not Established Appropriate Benchmarks to Evaluate the Effectiveness of Funded Programs
- Finding #4 – The Contract Requirements for the Mass Media and Public Relations Campaigns Did Not Require That Subcontractor Work be Competitively Bid
- Finding #5 – The Administration Did Not Establish Acceptable Standards for Procurements Made With Research Grant Funds
- Finding #6 - Formal Regulations Related to Uninsured Individuals Had Not Been Established

**Budget Closeout Transactions**

- Finding #7 - The Administration Could Not Support Certain Year-End Transactions That Eliminated a $3 Million General Fund Deficit at June 30, 2001

**Breast and Cervical Cancer Program**

- Finding #8 – Federal Reimbursement Had Not Been Sought for Program Recipients Subsequently Enrolled in Medical Assistance Resulting in Lost Funding of $140,000

*Denotes item repeated in full or part from preceding audit.*
Finding #9 - An Authorized Rate Reduction Was Not Implemented Resulting in Unnecessary Expenditures of $488,000

Finding #10 - Information Recorded in the Automated Payment System Was Not Sufficiently Controlled

Cash Receipts
Finding #11 – Cash Receipts Were Not Sufficiently Controlled at Two Locations

Health Education Campaign
Finding #12 – Certain Contractor Invoices Were Not Verified for Propriety and Invoices Lacked Adequate Detail

Local Health Departments
Finding #13 - Two Local Health Departments Did Not Comply With Certain State Regulations and Numerous Internal Control Deficiencies Were Noted

Audit Scope, Objectives and Methodology

Agency Response

* Denotes item repeated in full or part from preceding audit.
Executive Summary

Legislative Audit Report on the Department of Health and Mental Hygiene
Community and Public Health Administration
January 2002

• Deficiencies existed in the Administration’s management of the programs funded by the Cigarette Restitution Fund. For example, the Administration did not adequately oversee the performance of a private contractor hired to conduct a legally required Baseline Tobacco Study. The study results will be used to measure the overall success of the programs designed to reduce tobacco use. In addition, the Administration had not established a comprehensive plan to audit grantees and contractors that receive significant funding from these programs or to monitor them to ensure the required services are provided. It is estimated that these programs will spend $750 million through fiscal year 2010.

The Administration should ensure that all requirements are met for the baseline study and for future tobacco studies. The Administration also needs to establish a comprehensive plan to audit these grantees and contractors and to monitor the related services.

• The Administration had not established certain performance benchmarks that will be used to fully evaluate whether the programs funded by the Cigarette Restitution Fund were effectively meeting goals and objectives as required by law. The results of the comprehensive evaluation of the programs must be submitted to the Governor and General Assembly by November 2004.

The Administration needs to promptly establish the benchmarks and distribute this information to the grantees that provide program services.

• The request for proposals for the implementation of a mass media and public relations campaign regarding tobacco use prevention and cancer prevention did not require that all subcontractor work be competitively bid.

The Administration should require bidding for all subcontractor work.
• The Administration did not require that significant procurements related to a research grant awarded to a statewide academic health center follow the intent of State procurement regulations. Furthermore, the budget submission did not include detail specifications for planned renovations. Such expenditures are anticipated to approximate $13 million over a four-year period.

The Administration should modify the research grant agreement to establish appropriate procurement requirements and require the grantee to submit sufficient information in the budget request for planned renovations.

• The Administration could not support certain year-end transactions that eliminated a $3 million General Fund deficit at June 30, 2001.

The Administration should maintain support for year-end transactions as required by the Comptroller of the Treasury’s closeout policies.

• The Administration had not sought Federal reimbursement for Breast and Cervical Cancer Program expenditures incurred on behalf of recipients who were enrolled in the Medical Assistance Program. Based on our tests, Federal funds totaling at least $140,000 were lost. The Administration also incurred unnecessary Program expenditures of about $488,000 because an authorized rate reduction for hospital services was not applied against provider billings until almost two years later.

The Administration should determine the Program expenditures eligible for Federal reimbursement and request the funds in a timely manner. Also, the Administration should ensure that future rate reductions are applied in a timely manner.

• Collections were not sufficiently controlled at two Administration locations that received about $24.4 million during fiscal year 2001.

The Administration should ensure that all collections are sufficiently controlled from initial receipt until deposit.

• A number of deficiencies were noted at two local health departments reviewed.

The Administration should ensure that the local health departments implement the detail recommendations provided during the audit.
Background Information

Agency Responsibilities

The mission of the Community and Public Health Administration is to sustain and promote the public health of the citizens of Maryland. The Administration is responsible for aiding in the development and implementation of health services (such as, communicable disease control) in the local health departments of the State’s 23 counties and in Baltimore City. In addition, the Administration contracts with various entities, including non-profit organizations, to provide certain health related services (such as family planning) throughout the State.

Chapters 17 and 18 of the Laws of Maryland, 2000, effective July 1, 2000, established the Tobacco Use Prevention and Cessation Program and the Cancer Prevention, Education, Screening and Treatment Program. The intent of the legislation was to coordinate the State’s use of the Cigarette Restitution Fund to reduce tobacco use, cancer deaths, and tobacco-related diseases in the State. The Administration is responsible for administering the Programs. During fiscal year 2001, the Administration’s expenditures totaled approximately $225 million, including $33 million from the Cigarette Restitution Fund.

Reorganization

Effective July 1, 2001, the Community and Public Health Administration was abolished and two new Administrations were created in its place. The new Community Health Administration’s mission is to protect the health of communities and the population at large, including providing funding to the local health departments. The new Family Health Administration’s mission is to meet the needs of individuals and families, especially those who are vulnerable and at risk for poor health outcomes (for example, child and maternal health and primary care services). In the future these administrations will be audited separately.

Federal Government Disallowed $1.7 Million in Costs

In our preceding audit report, we commented that the Federal government was seeking reimbursement for disallowed costs totaling approximately $2.8 million related to reimbursements received for home health services provided through the local health departments in fiscal year 1997. The Federal government sought reimbursement because the Administration could not support its methodology for allocating payroll costs and had made an error related to administrative costs. In December 1999, the Administration made an interim settlement with the Federal
government for fiscal year 1997 and paid approximately $1.7 million, plus interest of $263,000. However, the Administration is still negotiating the fiscal year 1997 settlement amount and believes that amount will be reduced.

In addition, as a result of similar findings, the Federal government has disallowed costs totaling approximately $448,000 related to fiscal years 1998 and 1999. The Administration has reimbursed the Federal government this amount but has appealed these disallowances.

**Primary Care Program Overpayments**

In our preceding audit report, we noted that the Administration had not resolved overpayments of $814,000 made to Program providers. Our current review disclosed that the Administration has initiated appropriate actions to recover these balances. The Department has recovered, or is in the process of recovering through payment plans, much of these overpayments; however, six providers are disputing balances due of $288,000. Specifically, these providers contend that the Administration has been unable to provide specific patient documentation to support the overpayments. Accordingly, these providers filed a complaint with the Baltimore City Circuit Court in October 2000. In November 2000, the Court granted an injunction enjoining the collection of the $288,000 until such time as the Court has ruled. Administration management advised us that a settlement has been reached but as of December 12, 2001 all applicable parties have not signed it.

**Current Status of Findings From Preceding Audit Report**

Our audit included a review to determine the current status of the 14 fiscal/compliance findings and one performance audit item contained in our preceding audit report dated October 19, 1999. We determined that the Administration satisfactorily addressed 10 of the fiscal/compliance items and the one performance audit item. The remaining 4 fiscal/compliance items are repeated in this report. In its response to our preceding audit report, the Administration generally agreed to implement the recommendations related to those findings.
Findings and Recommendations

Cigarette Restitution Fund

Background
In November 1998, several major tobacco companies executed a settlement agreement with numerous states, including Maryland, whereby the companies agreed to pay the states approximately $196 billion over 25 years to settle all outstanding litigation. Chapter 173, of the Laws of Maryland, 1999, effective July 1, 1999, established the Cigarette Restitution Fund to distribute funds received by the State under this settlement. The Department of Budget and Management estimates the State will receive in excess of $4 billion from this settlement.

Chapters 17 and 18 of the Laws of Maryland, 2000, effective July 1, 2000, (codified within Section 13 of the Health General Article of the Annotated Code of Maryland) established, within the Department, the Tobacco Use Prevention and Cessation Program and the Cancer Prevention, Education, Screening and Treatment Program to be funded by the Cigarette Restitution Fund. The intent of this legislation was to coordinate the State’s use of certain Cigarette Restitution Funds to reduce tobacco use, tobacco-related diseases and cancer deaths in the State.

The law provides for the distribution of grants to various entities (including local public health departments and statewide academic health centers) for services such as screening, treatment, and research, and establishes a mass media and public relations component to counteract tobacco industry marketing and advertising efforts. The law also requires that baseline studies be conducted for both Programs to collect and measure certain data (for example, the percentage of individuals under the age of 18 years who smoke), that a comprehensive evaluation be conducted at the end of fiscal year 2004, and that the results be reported to the Governor and the General Assembly. The baseline reports and subsequent annual studies are to be used to evaluate if the Programs are meeting their objectives in accordance with the goals for 2010 established by the Governor’s Task Force to End Smoking in Maryland and the Governor’s Task Force to Conquer Cancer in Maryland.

Fiscal year 2001 expenditures for the two Programs totaled approximately $33 million, and the appropriation for fiscal year 2002 is approximately $75 million. According to estimates prepared by the Department of Budget and Management, expenditures during the first ten years of the Programs are anticipated to exceed $750 million.
Finding #1
The Administration did not adequately monitor the contractor performing the Baseline Tobacco Study to ensure that it was conducted properly and that the related report included all required information.

Analysis
The Administration hired a contractor, at a cost of approximately $1 million, to perform the Baseline Tobacco Study required by law for the Tobacco Use Prevention and Cessation Program. However, the Administration did not exercise appropriate oversight to ensure that the Study was conducted properly and met the law’s requirements. The Study included surveys of youths and adults conducted in the fall and early winter of 2000 to determine the prevalence of tobacco use in the State. The baseline data collected and subsequent annual surveys may be used when allocating Cigarette Restitution Funds to the State’s subdivisions, when adjusting or modifying tobacco use prevention and cessation strategies, and when monitoring the progress in meeting Program goals. However, because of the problems noted, as detailed below, there is a lack of assurance that the Study findings as presented in the report are reliable.

- For the adult portion of the Study, Administration management informed us that only limited verifications of the edit process used by the contractor were performed. The edit process was designed to ensure that potential errors in the survey process (such as inappropriate or inconsistent responses) were resolved. Documentation of the verifications actually performed was not available. Additionally, as of October 30, 2001, the Administration had not performed any analysis of the data that was submitted by the contractor on March 1, 2001 related to the adult portion of the Baseline Tobacco Study (such as completed interviews) to ensure that the data supports the findings presented in the Baseline Tobacco Report.

- The Report did not fully comply with the law that required the study to include the number and percentage of specific groups of individuals in each county who smoke or otherwise use tobacco products. While the study did provide some information for each specified group, other data was not provided or the data was modified. For example, the Report did not provide the percentages and number of minority individuals who smoke or otherwise use tobacco products within each county as required by the law. The report stated that a sufficient number of these individuals were not surveyed to produce precise representative estimates. Some of the modifications in the data provided by the contractor were based on guidance provided by the Administration.
Recommendation #1
We recommend that the Administration exercise appropriate oversight to ensure that all requirements are met for future tobacco studies. We further recommend that the Administration perform an analysis of the aforementioned data provided by the contractor to ensure that it supports the information presented in the Baseline Tobacco Report. Finally, we recommend that the Administration ensure that all legally required baseline data is compiled and reported to the appropriate parties.

Finding #2
The Administration had not established a comprehensive plan to audit significant funds provided to grantees and contractors and monitor services rendered.

Analysis
Although some limited verification procedures had been performed, as of October 30, 2001, the Administration had not established a comprehensive plan to audit grantees and private contractors who receive significant funding from the Cigarette Restitution Fund, or to monitor them to ensure that the required services are provided. This is especially critical considering the legal requirement that a comprehensive evaluation be performed to determine the effectiveness of both Programs at the end of fiscal year 2004.

While the Department’s Audit Division is responsible for auditing grantees that receive Department funding to monitor their compliance with the grant agreements, the Division’s policy only requires such audits to be performed once every four years. In addition to the audit function, the Administration has not developed a plan to perform periodic site visits of the grantees and contractors to ensure that required services are being rendered.

Preliminary results of one audit conducted by the Department’s Audit Division of a grant funded by the Cigarette Restitution Fund illustrate the need for frequent oversight. Specifically, after identifying several potential problems, the Administration, at our suggestion, requested an audit of a grantee. The Audit Division’s interim audit report disclosed that approximately $500,000 of the $1.5 million grant payments may be disallowed.
Recommendation #2
We recommend that the Administration establish a comprehensive plan that would provide, on a timely basis, a mechanism to audit significant funding provided to grantees and contractors from the Cigarette Restitution Fund and to monitor related services performed. Additionally, we recommend that the Administration obtain the final audit report of the aforementioned grantee and initiate appropriate action, including recovery of disallowed costs.

Finding #3
The Administration had not established required benchmarks to formally evaluate the effectiveness of programs funded by the Cigarette Restitution Fund by fiscal year 2004.

Analysis
The Administration had not established benchmarks for fiscal year 2004 to evaluate the effectiveness of both Programs as required by State law. Specifically, the law requires that a comprehensive evaluation of the Programs be conducted at the end of fiscal year 2004 including whether appropriate benchmarks based on objective performance measures have been met. A report that includes the results of the comprehensive evaluation and any related recommendations regarding modifications to the Programs must be submitted to the Governor and the General Assembly no later than November 1, 2004. This interim evaluation will also help the Department monitor the progress of the Programs in achieving the 2010 goals established by the Governor’s Task Forces.

While the Administration has identified Program outcomes and established some benchmarks for fiscal years 2002 and 2003, as of October 30, 2001, the Administration had not established any benchmarks for fiscal year 2004. For example, one Program outcome is to reduce cancer mortality rates. The established benchmark for fiscal year 2003 is to reduce by six percent the proportion of Maryland adults that currently smoke cigarettes; however, the related benchmark for fiscal year 2004 has not been set. These benchmarks need to be established and provided to the grantees so that appropriate strategies can be implemented as soon as possible. Furthermore, these benchmarks provide the measurement against which the Administration can determine if the Programs’ objectives and goals are being met.
Finally, Administration management advised us that the comprehensive evaluation might only include data through calendar year 2003 even though the law states that data through the end of fiscal year 2004 should be used. The Administration stated there would not be enough time to complete the study prior to the due date if all data for fiscal year 2004 is included.

**Recommendation #3**
We recommend that the Administration promptly establish appropriate benchmarks for fiscal year 2004 and distribute this information to the grantees. We further recommend that the Administration take appropriate actions to ensure that the fiscal year 2004 evaluation and related report are completed in accordance with the law.

**Finding #4**
The contract requirements for the mass media and public relations plan did not require the selected vendor to competitively bid the subcontractor work.

**Analysis**
The Administration’s request for proposals (RFP) for the implementation of a mass media and public relations campaign did not require that contractors obtain competitive bids for subcontracted work except in instances in which the contractor has an equity interest in the subcontractor. A large amount of mass media campaign work is performed using subcontractors, such as for the production of television commercials. This work should be competitively procured to help ensure that Cigarette Restitution Funds are expended in the most cost effective manner.

The Joint Audit Committee of the General Assembly had previously requested that the Department work with our Office to help ensure that the RFP addressed certain requirements prior to being issued. Accordingly, we reviewed the draft RFP related to the implementation of the mass media and public relations campaigns. While the Department addressed most of the issues we raised as a result of our review, the lack of a competitive bid requirement for subcontracted work was not changed.
In addition, the Department issued the RFP for implementing the media plan before the actual plan was developed. In this regard, the law authorized the Department to conduct formative research and develop a mass media plan regarding tobacco use prevention and cancer prevention and treatment prior to January 1, 2001. However, the Department did not issue the RFP for the development of the media plan until August 21, 2001 and did not expect receipt of the plan until December 2001 even though the vendor proposals for implementing the plan were due by October 15, 2001. Rather than being able to review the actual media plan, the Administration asked the vendors to base their proposal/bid submissions on a theoretical advertising model. Nevertheless, the Administration advised that they do plan to incorporate the final media plan into the contract after the plan is received.

The request for proposals for the mass media and public relations campaign provides for an initial contract term from January 1, 2002 through June 30, 2003 with four one-year renewal options. The document further states that the budget for the campaign will be $4 million in fiscal year 2002 and it is anticipated that funding in future years will be approximately $7.5 million to $10 million annually. The goal of the campaign is to counteract tobacco industry marketing and advertising efforts by exposing target audiences to sustained counter-marketing and media campaigns.

**Recommendation #4**

*We recommend that the Administration require the contractor that will implement the plan to competitively bid all subcontractor services. We also recommend that the Administration implement appropriate procedures and controls to ensure that the final media plan is implemented as intended.*

**Finding #5**

*The Administration did not establish acceptable standards for equipment and renovation procurements to be made with research grant funds.*

**Analysis**

The Administration did not require that an academic health center follow acceptable procurement standards with regard to purchases made in connection with a research grant agreement. Also, detail specifications related to renovations at the center that are needed to provide adequate research facilities were not provided to the Administration. According to the grantee, during the period from
July 1, 2000 to May 31, 2001, expenditures for equipment and renovations totaled approximately $4.5 million. Such expenditures are anticipated to approximate $13 million for fiscal years 2002 to 2005. Specifically, we noted the following:

- The grant agreement did not require that all procurements be conducted in a manner consistent with the State Procurement Regulations (including competitive bidding). The Department does not know whether procurements made to date have been made in a competitive manner. We noted that the Federal National Institutes of Health, which provides research grants, requires all grantees to follow Federal procurement requirements (including competitive bidding).

- While the research budget request included a brief description of the type, total costs and facilities to be renovated, the budget did not provide detail specifications as to the approximate size of the areas to be renovated. Consequently, the Department could not determine if the requested funding was reasonable in relation to the renovations to be performed.

**Recommendation #5**
We recommend that the Administration modify the research grant agreement to include minimum procurement standards for significant equipment and renovations and verify that the procedures are being followed. We also recommend that the Department require the grantee to submit sufficient information in the budget request to allow the Administration to determine if the planned renovations are reasonable in relation to the costs.

**Finding #6**
Formal regulations related to uninsured individuals had not been established for both Programs as required by law.

**Analysis**
Formal regulations had not been prepared to establish the criteria that the Administration will use to determine if an individual has the financial means to pay for treatment provided through the Tobacco Use Prevention and Cessation Program or the Cancer Prevention, Education, Screening and Treatment Program. The enabling legislation, effective July 1, 2000, requires that regulations be established to be used to determine whether uninsured individuals have the financial means to pay for services under the Programs. Although preliminary guidance has been provided by the Administration to the grantees to determine an
individual’s ability to pay for treatment, the Administration does not anticipate establishing formal regulations until the end of calendar year 2002. We were informed that additional time is needed to study the cost impact of these regulations on the Administration.

**Recommendation #6**
We recommend that the Administration establish formal regulations for both Programs as soon as possible.

**Budget Closeout Transactions**

**Finding #7**
The Administration could not support certain year-end transactions that eliminated a $3 million General Fund deficit at June 30, 2001.

**Analysis**
The Administration did not comply with the Comptroller of the Treasury's closeout policies for fiscal years 2000 and 2001 to ensure that all year-end transactions were properly supported. Specifically, at fiscal year-end, the Administration did not review the propriety of the transactions recorded by the local health departments. As a result, one local health department recorded unsupported transactions to reduce expenditures at June 30, 2000 and 2001 totaling approximately $2.2 million and $3 million, respectively, to eliminate cash deficits. While the local health department’s expenditure activity is reflected in the Administration’s accounting records, the Administration was not aware of the fiscal year 2000 deficit until October 2000 and had not taken timely action to resolve the situation in fiscal year 2001. A condition regarding the Administration’s failure to comply with closeout policies was commented upon in our preceding audit report.

**Recommendation #7**
We again recommend that the Administration comply with the Comptroller of the Treasury’s fiscal year closeout policies and review, at least on a test basis, the propriety of the transactions recorded by the local health departments. We further recommend that the Administration retain appropriate supporting documentation of this process for future reference. Finally, we recommend that the Administration address how the aforementioned deficit will be resolved and take appropriate action if future deficits are discovered.
Breast and Cervical Cancer Program

Background
The Administration operates the Breast and Cervical Cancer Program that uses an automated system to pay private medical providers for diagnostic and treatment services provided to eligible individuals. The Program, which is primarily financed with general funds, is designed for low-income individuals whose income exceeds that allowable to qualify for the Medical Assistance Program and who have qualifying medical conditions. During fiscal year 2001, payments to providers under the Program totaled approximately $9.2 million. As of June 30, 2001, approximately 4,100 recipients were enrolled in the Program.

Finding #8
The Administration did not seek Federal reimbursement for Program expenditures incurred on behalf of recipients who were enrolled in the Medical Assistance Program. Based on our tests, Federal funds totaling at least $140,000 were lost.

Analysis
The Administration had not pursued Federal reimbursement for Breast and Cervical Cancer Program expenditures incurred on behalf of Program recipients who were subsequently enrolled in, and made retroactively eligible for, the Medical Assistance Program. Our tests disclosed that Federal reimbursement was not requested within the required time frame for at least $140,000, and therefore, these funds are not recoverable. According to State regulations, individuals enrolled in the Medical Assistance Program may not receive benefits under the Breast and Cervical Cancer Program. The Federal government shares equally in the costs of the Medical Assistance Program, but does not finance the Breast and Cervical Cancer Program.

At the time of application, the Administration determines if the Program applicant is enrolled in the Medical Assistance Program and if so, the applicant is not allowed to enroll in the Breast and Cervical Cancer Program. However, if the individual is potentially eligible for Medical Assistance (for example, because of low income), the Administration does not require the applicant to apply for Medical Assistance coverage. Furthermore, while the Administration had initiated certain automated match procedures in December 1999 to periodically identify individuals in the Program who were also enrolled in the Medical Assistance Program, the Administration has not determined the Program expenditures previously paid on behalf of these recipients that were eligible for Federal reimbursement. We identified 16 patients with significant Program expenditures that were included on match reports generated from April 2000
through March 2001. Our related tests resulted in identifying $73,000 in Program expenditures that were eligible for Federal reimbursement during the audit period. Another $120,000 related to fiscal year 1998 was identified in our preceding audit report. The Administration had not attempted to collect any of these funds and the allowable timeframe had expired for approximately $140,000 of these funds at the time of our audit.

**Recommendation #8**

We recommend that the Administration immediately determine Program expenditures eligible for Federal reimbursement. Furthermore, we again recommend that the Administration seek reimbursement from the Federal government in a timely manner for Program expenditures incurred on behalf of Program recipients who were enrolled in Medical Assistance. We also again recommend that individuals who are potentially eligible be required to apply for Medical Assistance.

**Finding #9**

A significant delay in the application of an authorized rate reduction for hospital services cost the Administration an additional $488,000.

**Analysis**

On February 4, 1998, the Health Services Cost Review Commission awarded the Administration a six percent discount for hospital related services, effective February 1, 1998. However, the Administration did not apply the discount to hospital bills it paid for Program recipients until December 1, 1999. During this period the Administration incurred approximately $488,000 in unnecessary expenditures. Furthermore, the Administration did not attempt to seek reimbursement from the hospitals for these overpayments. State regulations allow hospitals to refuse to grant a discount previously approved by the Commission when the claim is made more then three months after the initial request for payment. Accordingly, the Administration may have lost the opportunity to recover these overpayments.

Administration management informed us that the delay in applying the discount was the result of difficulties encountered while modifying the automated payment system. Considering the potential dollar savings, we believe that alternative processes (such as manual reduction of applicable bills) should have been implemented during the interim.
Recommendation #9
We recommend that, in the future, the Administration ensure that rate reductions are implemented in a timely manner. We further recommend that the Administration attempt to recover the overpayments.

Finding #10
Provider and patient information recorded in the automated payment system was not sufficiently controlled to prevent unauthorized disbursements.

Analysis
The Administration had not established adequate controls over its automated payment system. Specifically, output reports of provider and patient information recorded in the automated payment system were not generated and used for independent verification to the related authorizing documents. This condition was commented upon in our preceding audit report. In addition, available system security features were not implemented. Eleven employees had either unnecessary access to the payment system, or had incompatible duties since they approved invoices for payment and could also modify vendors’ addresses. Consequently, there was a lack of assurance that only valid, authorized data was recorded on the system used to generate payments.

Recommendation #10
We again recommend that output reports of information recorded in the automated payment system be generated. We also again recommend that these reports, with the related authorizing documentation, be used by an employee independent of the automated payment system to verify the propriety of critical information recorded. We further recommend that the Administration fully use available security features to restrict access to the automated payment system.

Cash Receipts

Finding #11
Cash receipts were not sufficiently controlled at two locations.

Analysis
Controls were inadequate over checks received at two offices within the Administration’s headquarters location. At one office checks were not restrictively endorsed “for deposit only” and recorded immediately upon receipt
by the employee who opened the mail, but rather were endorsed and recorded later by another employee. In addition, at both offices independent verifications were not performed to ensure that all collections recorded were submitted for deposit with the Department’s central cashier. Consequently, there is a lack of assurance that all checks received were deposited. During fiscal year 2001, recorded collections at these two offices totaled approximately $24.4 million.

**Recommendation #11**

We recommend that all checks be restrictively endorsed “for deposit only” and recorded immediately upon receipt. We further recommend that an employee independent of the cash receipts function verify that all recorded collections were submitted for deposit with the Department’s central cashier and properly document this comparison.

**Health Education Campaign**

**Finding #12**

The Administration did not verify certain contractor invoices to supporting documentation and contractor’s invoices were not specific as to tasks performed.

**Analysis**

The Administration did not verify the propriety of certain contractor invoices for the development and implementation of a statewide health education campaign by reviewing appropriate supporting documentation. Specifically, we noted the following:

- Our test of 23 payments totaling approximately $1.1 million made during the period from January 1999 to November 2000, disclosed 10 payments for which the contractor did not provide copies of subcontractor invoices to support approximately $240,000 in costs billed to the Administration. The contract included a provision that subcontractor invoices be submitted to substantiate these costs.

- Although budgets were approved by the Administration, in numerous instances there was a lack of documentation that invoices submitted for payment were in agreement with the approved budgets. For example, the contractor’s invoices did not describe tasks performed or relate the tasks to the specific budget line item. The contract required that the invoices be itemized in the same manner as the corresponding budget.
The contract, including modifications, was effective for the five-year period ending October 2000, and actual payments totaled approximately $3.9 million. As a result of the aforementioned problems, there is a lack of assurance that the services were proper and in agreement with the approved budgets.

**Recommendation #12**

We recommend that the Administration verify the amounts billed by the contractor, including previous billings, to the appropriate supporting documentation (such as, subcontractor invoices), at least on a test basis, and initiate action as deemed necessary. Furthermore, we recommend that, in the future, the Administration ensure that payments made to contractors are in agreement with the approved budgets.

**Local Health Departments**

**Finding #13**

Two local health departments reviewed did not comply with certain State regulations and numerous internal control deficiencies were noted.

**Analysis**

Our review of two local health departments disclosed certain instances of noncompliance with State regulations, as well as deficiencies in internal control. For example, we noted the following:

- Both local health departments did not independently verify that all collections were subsequently deposited. In addition, at one local health department checks were not restrictively endorsed and recorded immediately upon receipt. The related collections of these two local health departments totaled approximately $23.7 million for fiscal year 2001.

- At both local health departments, delinquent accounts were not submitted to the Central Collection Unit of the Department of Budget and Management in accordance with the Unit’s regulations. In addition, at one local health department accounts receivable records were not maintained over certain accounts receivables; the employees who maintained the unpaid billings also received the related payments; and certain services for fiscal year 2001, totaling $833,000 had not been billed.
The Department of Health and Mental Hygiene's Division of Internal Audits has noted similar procedural and internal control weaknesses during its audits of local health departments and has made recommendations to correct these deficiencies. Similar conditions have also been commented upon in a number of our preceding audit reports.

A local health department exists in each political subdivision in Maryland and is operated with funding provided through grants and human service contracts from various Department units (including the Administration) and local funding (including collections). Each local health department has a local health officer and support personnel (such as nurses and technicians). The Administration has oversight responsibilities for all local health departments. Based on the Department’s records, payments to the local health departments by all Departmental units during fiscal year 2001 totaled approximately $257 million.

**Recommendation #13**

We again made detailed recommendations to the Administration and the applicable local health departments that, if implemented, will correct the conditions identified. In addition, we again recommend that the Administration ensure that the local health departments implement the recommendations made by the Department's Division of Internal Audits.
Audit Scope, Objectives and Methodology

We have audited the Community and Public Health Administration of the Department of Health and Mental Hygiene for the period beginning September 22, 1998 and ending June 30, 2001. The audit was conducted in accordance with generally accepted government auditing standards.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine the Administration’s financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules and regulations. We also determined the current status of the findings included in our preceding audit report, including a follow-up review of the actions taken by the Administration to implement the recommendations contained in a previous performance audit on collecting service and cost data from the local health departments.

In planning and conducting our audit, we focused on the major financial related areas of operations based on assessments of materiality and risk. Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Administration’s operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives.

Our audit did not include certain support services provided by the Department’s Office of the Secretary and related units to the other units of the Department. These support services (such as payroll, purchasing, maintenance of accounting records and related fiscal functions) are within the scope of our audit of the Office of the Secretary. In addition, we did not audit the Administration’s Federal financial assistance programs for compliance with Federal laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies.

The Administration’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 the Administration’s ability to maintain reliable financial records, operate effectively and efficiently and comply with applicable laws, rules and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules or regulations.

The Department’s response, on behalf of the successor Administrations, 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 Administration regarding the results of our review of its response.
January 18, 2002

Bruce A Myers, C.P.A.
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
Room 1202
301 West Preston Street
Baltimore MD 21201

Dear Mr. Myers:

Thank you for your letter regarding the Department of Health and Mental Hygiene’s audit report for the Community and Public Health Administration. Enclosed you will find the Department’s plan of correction that addresses each audit recommendation. I will work with the appropriate Directors of Administration, Program Directors, and Deputy Secretary to promptly address all audit exceptions. In addition, our Division of Internal Audits will follow-up on the recommendations to ensure compliance.

Thank you again for your letter. If you have any questions, please do not hesitate to contact Mr. Larry Triplett, Inspector General. He may be reached at 410-767-5228.

Sincerely,

[Signature]
Georges C. Benjamin, M.D.
Secretary

Enclosure

cc: Ms. Marsha Bienia
Carlessia A. Hussein, Dr. P.H.
Diane Matuszak, M.D., M.P.H.
Russell W. Moy, M.D., M.P.H.
Ms. Joan Salim
Ms. Arlene H. Stephenson
Joan Stine, M.S., M.H.S., C.H.E.S.
Mr. Richard Stringer
Mr. Larry Triplett
Community and Public Health Administration
Responses to the Legislative Audit Discussion Notes
For Audit Period September 22, 1998 to June 30, 2001

Finding #1
The Administration did not adequately monitor the contractor performing the Baseline Tobacco Study to ensure that it was conducted properly and that the related report included all required information.

Recommendation #1
We recommend that the Administration exercise appropriate oversight to ensure that all requirements are met for future tobacco studies. We further recommend that the Administration perform an analysis of the aforementioned data provided by the contractor to ensure that it supports the information presented in the Baseline Tobacco Report. Finally, we recommend that the Administration ensure that all legally required baseline data is compiled and reported to the appropriate parties.

Administration’s Response #1
The Administration agrees that increased monitoring could improve the results of the tobacco survey. While the verifications of the edit process were described as “limited”, they were in fact sufficient to check for inconsistent and inappropriate responses because they occurred throughout the study as the data was being collected. All documentation of verification tasks shall be collected and maintained.

The Administration used the Centers for Disease Control and Prevention’s methodology for conducting the nationwide Behavioral Risk Factor Surveillance System surveys in designing the Baseline Tobacco Study survey. This is a well-developed and tested instrument that has been refined over a number of years. In addition, the Administration over sampled for minority groups in order to ensure adequate numbers. Despite this effort, there were jurisdictions that did not have enough minorities represented to draw conclusions about their tobacco-related behaviors. The Administration is piloting an enhanced methodology as part of the first Annual Tobacco Study in an effort to successfully increase the number of minorities participating in these studies.

Tobacco data required by the Cigarette Restitution Fund Program and collected by the Administration have been reported to appropriate parties.
Finding #2
The Administration had not established a comprehensive plan to audit significant funds provided to grantees and contractors and monitor services rendered.

Recommendation #2
We recommend that the Administration establish a comprehensive plan that would provide, on a timely basis, a mechanism to audit significant funding provided to grantees and contractors from the Cigarette Restitution Fund and to monitor related services performed. Additionally, we recommend that the Administration obtain the final audit report of the aforementioned grantee and initiate appropriate action, including recovery of disallowed costs.

Administration’s Response #2
The Administration concurs with this recommendation. Based on our current audit schedule, by the end of fiscal year 2003, we will have initiated the audit of thirteen of the 24 local health departments receiving Cigarette Restitution Funds (CRF). At a minimum, we plan to audit the University of Maryland Medical Group and the Johns Hopkins Institutions CRF funded programs by the end of fiscal year 2003. In addition, if resources permit, any LHD which received in excess of $1,000,000 in either FY 2001 or FY 2002 along with all new vendors will be audited in FY 2003. All other recipients would be audited in either FY 2004 or FY 2005. Finally, we have been advised that the report of the first audit conducted on a CRF funded program will be available approximately February 4, 2002 and appropriate actions will be taken.

During fiscal year 2002, the Administration has implemented a procedure for closer monitoring of CRF Program grants and contracts through use of a site visit protocol as an adjunct to the ongoing collection of progress reports and performance measures.
Finding #3
The Administration had not established required benchmarks to formally evaluate the effectiveness of programs funded by the Cigarette Restitution Fund Program by fiscal year 2004.

Recommendation #3
We recommend that the Administration promptly establish appropriate benchmarks for fiscal year 2004 and distribute this information to the grantees. We further recommend that the Administration take appropriate actions to ensure that the fiscal year 2004 evaluation and related reports are completed in accordance with the law.

Administration’s Response #3
The Administration concurs with this recommendation. In the Cancer Prevention, Education, Screening and Treatment (CPEST) Program, the overall benchmarks will be reflected in the Managing for Results (MFR) Plan. The current MFR plan for the local health component of the CPEST Program reflects actual outcome measures, such as cancer mortality, for 1997, 1998 and 1999 (the most current years for which data is available) and an estimated measure for 2010, because changes in mortality take a long time to accomplish. The MFR plan for the local health component of the CPEST Program will be revised to reflect benchmarks for each fiscal year through fiscal year 2004. The revised MFR plan will be distributed to the local jurisdictions. MFR plans have been requested for each of the statewide academic centers for each year of funding. The MFR plans submitted by the statewide academic center for their request for funding for fiscal year 2002 include benchmarks for fiscal year 2004.

The Tobacco Use Prevention and Cessation Program has benchmarks established for fiscal year 2004. These were promulgated as part of the Managing For Results (MFR) process for fiscal year 2003.

Lastly, an overall framework for evaluation of each of the components of the Cigarette Restitution Fund Program is being developed to show inputs, outputs and outcomes for the CRFP. This framework will be used in the overall evaluation of the CRFP.
Finding #4
The contract requirements for the mass media and public relations plan did not require the selected vendor to competitively bid the subcontractor work.

Recommendation #4
We recommend that the Administration require the contractor that will implement the plan to competitively bid all subcontractor services. We also recommend that the Administration implement appropriate procedures and controls to ensure that the final media plan is implemented as intended.

Administration’s Response #4
The RFP provisions for the Mass Media and Public Relations component of the Tobacco Use Prevention and Cessation Program support the use of competitive bidding in connection with subcontract work on a task order basis. The Administration will employ such a process as appropriate and to the extent required by law in connection with the Mass Media contract.
Finding #5
The Administration did not establish acceptable standards for equipment and renovation procurements to be made with research grant funds.

Recommendation #5
We recommend that the Administration modify the research grant agreement to include minimum procurement standards for significant equipment and renovations and verify that the procedures are being followed. We also recommend that the Department require the grantee to submit sufficient information in the budget request to allow the Administration to determine if the planned renovations are reasonable in relation to costs.

Administration’s Response #5
The Administration concurs with this recommendation. The Administration will modify the standard grant agreement with the University of Maryland Medical Group for the cancer research grant starting in fiscal year 2002 to include language regarding competitive procurement of major purchases over $25,000. The Administration will subsequently follow up with the University of Maryland to verify that competitive procurement procedures have been followed. The Administration has requested more budget justification detail in the request for renovations prior to making an award of the cancer research grant to the University of Maryland for fiscal year 2002.
Finding #6
Formal regulations related to uninsured individuals had not been established for both Programs as required by law.

Recommendation #6
We recommend that the Administration establish formal regulations for both Programs as soon as possible.

Administration’s Response #6
The Administration concurs with this recommendation. The Administration intends to develop regulations regarding patient eligibility for cancer treatment, as specified by Section 13-1102(I), after the Report of the Cancer Treatment Task Force is finalized and after two of the recommendations of the Cancer Treatment Task Force are completed. The final Report of the Cancer Treatment Task Force was developed in the fall of 2001 and is awaiting final approval. Two recommendations in the Report of the Cancer Treatment Task Force, as follows, relate to this recommendation by the legislative auditors. “The DHMH, in consultation with others with financial modeling expertise, should move expeditiously to develop predictive models capable of estimating the costs of cancer screening, diagnosis, and treatment for each of the targeted cancers as a first step in determining the volume of screening and treatment that can be provided with funds under the Cancer Prevention, Education, Screening and Treatment (CPEST) Program.” (Recommendation 1.1) “The financial eligibility for treatment for the CPEST Program should be determined in conjunction with appropriate financial modeling to ensure that adequate funding for treatment would be available. Once the financial eligibility for treatment is set, it should be standardized across the state and evaluated annually.” (Recommendation 6.1) The Administration will develop regulations after these two recommendations of the Cancer Treatment Task Force are completed.

The Tobacco Use Prevention and Cessation Program intends to develop and adopt regulations jointly with the Cancer Prevention, Education, Screening and Treatment Program.
Finding #7
The Administration could not support certain year-end transactions that eliminated a $3 million General Fund deficit at June 30, 2001.

Recommendation #7
We again recommend that the Administration comply with the Comptroller of the Treasury’s fiscal year closeout policies and review, at least on a test basis, the propriety of the transactions recorded by the local health departments. We further recommend that the Administration retain appropriate supporting documentation of this process for future reference. Finally, we recommend that the Administration address how the aforementioned deficit will be resolved and take appropriate action if future deficits are discovered.

Administration’s Response #7
The Administration concurs that the Comptroller of the Treasury’s closeout procedures should be followed and believes that these procedures have been followed. However, the Administration believes that the prior review of these transactions is impractical due to the volume of entries and time constraints. All documentation for closeout entries has been and will be maintained at the local health department level.
With respect to the aforementioned deficit, the Mental Hygiene Administration will reimburse the local health departments once these funds become available.
Finally, the Administration will take appropriate action within the scope of its responsibilities, to resolve similar funding issues in the future.
Finding #8
The Administration did not seek Federal Reimbursement for Program expenditures incurred on behalf of recipients who were enrolled in the Medical Assistance Program. Based on our tests, Federal funds totaling at least $140,000 were lost.

Recommendation #8
We recommend that the Administration immediately determine Program expenditures eligible for Federal reimbursements. Furthermore, we again recommend that the Administration seek reimbursement from the Federal Government in a timely manner for Program expenditures incurred on behalf of Program recipients who were enrolled in Medical Assistance. We also again recommend that individuals who are potentially eligible be required to apply for Medical Assistance.

Administration’s Response #8
The Administration concurs with this recommendation. In September 2001 the Administration put into affect a process to ensure that State general funds were not used to pay for treatment of patients who are enrolled in Medical Assistance. Also, as of January 7, 2002, individuals who enroll in the Breast and Cervical Cancer Treatment Program are required to apply for Medical Assistance.
Finding #9
A significant delay in the application of an authorized rate reduction for hospital services cost the Administration an additional $488,000.

Recommendation #9
We recommend that, in the future, the Administration ensure that rate reductions are implemented in a timely manner. We further recommend that the Administration attempt to recover the overpayments.

Administration’s Response #9
The Administration concurs with this recommendation. The Administration has programming support staff in place to ensure timely implementation of future rate changes. In order to test whether or not hospitals will reimburse the Program for the 6% discount for payments made between February 1998 and December 1999, the Program has sent letters and invoices to two large hospitals requesting payment.
Finding #10
Provider and patient information was not verified to prevent unauthorized disbursements and several employees had unnecessary or inappropriate access to critical screens.

Recommendation #10
We again recommend that output reports of information recorded in the automated payment system be generated. We also again recommend that these reports, with the related authorizing documentation, be used by an employee independent of the automated payment system to verify propriety of critical information recorded. We further recommend that the Administration fully use available security features to restrict access to the automated payment system.

Administration’s Response #10
The Administration concurs with this recommendation. Read and write access capabilities were restricted to those employees whose job responsibilities require such access in September 2001. The system administrator removes a terminated employee's access immediately from the system. A monthly output report will be produced consisting of a 10% random sample of all newly added or updated records for the previous calendar month. The clerical staff will visually verify the documentation for this sample and will initial and date each listing. Discrepancies will be reported to the Program Manager who will investigate and resolve the discrepancy. The monthly output reports will be kept in a locked file cabinet. The output report system is scheduled to be implemented by February 1, 2002.
Finding #11
Cash receipts were not sufficiently controlled at two locations.

Recommendation #11
We further recommend that an employee independent of the cash receipts function verify that all recorded collections were submitted for deposit with the Department's Central Cashier and properly document this comparison.

Administration’s Response #11
The Administration concurs with this recommendation. The Administration has implemented procedures in the two locations to ensure that cash receipts are processed consistent with the recommendation.
Finding #12
The Administration did not verify certain contractor invoices to supporting documentation, and contractor’s invoices were not specific as to tasks performed.

Recommendation #12
We recommend that the Administration verify the amounts billed by the contractor, including previous billings, to the appropriate supporting documentation (such as, subcontractor invoices), at least on a test basis, and initiate action as deemed necessary. Furthermore, we recommend that, in the future, the Administration ensure that payments made to contractors are in agreement with the approved budgets.

Administration’s Response #12
The Administration concurs with this recommendation. The Administration sent a letter to the contractor requesting copies of invoices for a sample (n=58) of outside vendors used by the contractor between September 1998 and June 2001. The Administration received copies of the invoices and verified that 97% of the invoices requested were received and that the invoices from the subcontractors supported the amount of funds requested by the contractor. The Administration will ensure that payments made to contractors are in agreement with the approved budgets in the future.
Finding # 13
Two local health departments reviewed did not comply with certain State regulations and numerous internal control deficiencies were noted.

Recommendation #13
We again made detailed recommendations to the Administration and the applicable local health departments that if implemented, will correct the conditions identified. In addition, we again recommend that the Administration ensure that the local health departments implement the recommendations made by the Department’s Division of Internal Audits.

Administration’s Response #13
The Administration concurs with this recommendation. As reported by the Administration at the audit exit conference (attended by representatives of the two local health departments reviewed) and documented in the Administration’s response to the Discussion Notes, both local health departments have either implemented procedures that address the auditor’s concerns, or are in the process of doing so. Additionally, the Administration has made all other local health departments aware of the audit findings so that they may assess their own internal control procedures.
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