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Please address specific inquiries regarding this report to the Audit Manager listed on the inside back cover by telephone at (410) 946-5900.

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The Department of Legislative Services – Office of the Executive Director, 90 State Circle, Annapolis, Maryland 21401 can also assist you in obtaining copies of our reports and related correspondence. The Department may be contacted by telephone at (410) 946-5400 or (301) 970-5400.
September 29, 2003

Delegate Van T. Mitchell, Co-Chair, Joint Audit Committee
Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Physician Rehabilitation and Peer Review Activities Programs of the Medical and Chirurgical Faculty of Maryland (Faculty) for the period beginning January 1, 2001 and ending December 31, 2002.

The primary objectives of this audit were to evaluate internal control over the Faculty’s major financial related applications with regard to the Programs (for example, cash receipts and disbursements) and to review the related expenditures and compliance with applicable laws, rules and regulations. Our audit did not disclose any findings that warrant mention in this report.

We also conducted a follow-up review on a prior performance audit finding pertaining to certain peer review activities. Our review again disclosed that the Faculty’s investigations of complaints against physicians were generally not completed timely. Because of legislation passed during the 2003 legislative session, the peer review activities were competitively procured and, as a result, the Faculty will no longer be performing these investigations.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor
Background Information

Organization

During the audit period, the Health Occupations Article, Section 14-402(e) of the Annotated Code of Maryland, required that the State Board of Physician Quality Assurance (Board) assess each applicant for a license (or renewal) to practice medicine, a fee not to exceed $50. The fee was forwarded to the Medical and Chirurgical Faculty of Maryland (Faculty), a nonprofit, tax-exempt association representing Maryland physicians, to fund its Physician Rehabilitation and Peer Review Activities Programs. In addition, this law provided that the Legislative Auditor shall biennially audit the accounts and transactions of the Programs.

The Physician Rehabilitation Program functioned under the direction of the Physician Rehabilitation Committee, which the Faculty established in 1978. The Program’s purpose was to identify physicians who suffer from impairments (for example, physical illness or substance abuse) which would prevent them from practicing medicine with reasonable skill and safety, assess their condition, refer them to appropriate treatment and support, and monitor their recovery. The Program also helped educate physicians on the issues and causes of these physician impairments.

The Peer Review Activities Program was authorized under the Health Occupations Article, Section 14-401 of the Annotated Code of Maryland. Although, by law, the Board had the authority to license and discipline physicians in Maryland, the law required that the Board refer to the Faculty for review, those allegations involving standards of medical care or gross over-utilization of health care services.

Law Change

Chapter 252 of the 2003 Laws of Maryland, effective July 1, 2003, made significant changes to the Health Occupations Article of the Annotated Code. Specifically, the State Board of Physician Quality Assurance was renamed the Board of Physicians (Board). In addition, rather than require that the Board forward the license application fees to the Faculty, the law now requires the Board to deposit these fees into a fund under the Board’s control. The fund is to be used to pay a non-profit organization(s), under contract with the Board, to perform physician rehabilitation services and peer review investigations. Accordingly, the
Board is now authorized to obtain these services under competitive procurements, rather than exclusively from the Faculty.

During the subsequent contract procurement process for peer review services through August 31, 2004, the Faculty was not awarded the contract. Since the Board has not yet finalized the procurement for physician rehabilitation services, the Board contracted with the Faculty to continue its Physician Rehabilitation Program on a temporary basis through December 31, 2003.

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

Our audit included a review to determine the current status of the one prior performance audit finding included in our preceding audit report dated January 11, 2002. Our follow-up review disclosed that the prior performance audit finding, which related to the timeliness of conducting peer review activities, had not been resolved. However, this finding has not been repeated in this report because, in compliance with a law change, effective July 1, 2003, peer review activities were competitively bid. Except for certain remaining cases under investigation, these activities are no longer performed by the Faculty.

**Findings and Recommendations**

Our audit did not disclose any significant deficiencies in the design or operation of the Faculty’s internal control. Nor did our audit disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

A draft copy of this report was provided to the Faculty. Since there are no recommendations in this report, a written response was not necessary.
Financial Information

The Faculty engages an independent certified public accounting firm to perform audits of its financial statements. In its audit report dated June 12, 2003, applicable to the fiscal years ended December 31, 2002 and 2001, the firm stated that the Faculty’s financial statements presented fairly, in all material respects, its financial position, the changes in its net assets and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America. According to the Faculty’s financial statements, expenditure activity related to the Physician Rehabilitation and Peer Review Activities Programs collectively accounted for approximately 12 percent and 11 percent of the Faculty’s total expenditures for fiscal years 2002 and 2001, respectively.

The following is a summary of the revenues and expenditures for the Physician Rehabilitation and Peer Review Activities Programs for the years ended December 31, 2002 and 2001, based on the Faculty’s records. This summary is not intended to and does not provide the financial position and results of operations in accordance with generally accepted accounting principles. Specifically, certain financial statements and disclosures (for example, balance sheet, summary of significant accounting policies) have not been provided as required by generally accepted accounting principles.

<table>
<thead>
<tr>
<th></th>
<th>For the Year Ended</th>
<th>December 31, 2002</th>
<th>December 31, 2001</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Licensing fees</td>
<td></td>
<td>$626,400</td>
<td>$562,400</td>
</tr>
<tr>
<td>Other revenues</td>
<td></td>
<td>1,200</td>
<td>1,000</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td></td>
<td>$627,600</td>
<td>$563,400</td>
</tr>
<tr>
<td><strong>Expenditures:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Physician Rehabilitation Program</td>
<td>$381,837</td>
<td>$358,531</td>
<td></td>
</tr>
<tr>
<td>Peer Review Activities Program</td>
<td>281,688</td>
<td>209,953</td>
<td></td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td></td>
<td>$663,525</td>
<td>$568,484</td>
</tr>
<tr>
<td><strong>Excess Expenditures Over Revenues</strong></td>
<td>$ (35,925)</td>
<td>$ (5,084)</td>
<td></td>
</tr>
</tbody>
</table>

(1) Physician license renewals are staggered alphabetically, resulting in a fluctuation of license revenue.
Peer Review Information

In our 1994 audit report, we reported the results of our performance audit on the efficiency and effectiveness of the Peer Review Activities Program. During the intervening years, all but one finding from that report was resolved: the lack of timely investigations of complaints against physicians. During this current audit, we conducted a follow-up review of the Faculty’s efforts regarding the peer review investigations and we again noted that the time it took the Faculty to complete investigations of complaints made against physicians was significantly greater the 90-day standard that was required by State law.

Based on the Faculty’s records, 292 investigations were completed during the period from January 1, 2001 through August 15, 2003, as depicted in the following chart:

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>January 1, 2003 to August 15, 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2001</td>
</tr>
<tr>
<td>Cases Completed Within 90 days</td>
<td>1</td>
</tr>
<tr>
<td>Cases Completed Beyond 90 days</td>
<td>93</td>
</tr>
<tr>
<td>Total Cases Completed</td>
<td>94</td>
</tr>
<tr>
<td>Average Days to Complete a Case</td>
<td>220</td>
</tr>
</tbody>
</table>

Additionally, it should be noted that although the Faculty routinely obtained time extensions from the Board, physicians were allowed to continue practicing pending the results of the investigations.

The increase in average days to complete a case is the result of a significant backlog of investigations that was created during calendar year 2001, when the Board referred to the Faculty for investigation all malpractice complaints against physicians. This was a change from the Board’s prior policy, whereby it only referred a physician for review when three claims were filed within a five-year period. The Faculty significantly increased their efforts during calendar years 2001 and 2002 to complete cases from the preceding years, in an attempt to eliminate this backlog.

As noted elsewhere in this report, the Faculty will now have to be selected through a competitive bid process in order to perform these investigations in the future. As of August 15, 2003, the Faculty was in the process of completing its final 22 active investigations. The Faculty also advised us that it will take no action on 11 other
cases it received from the Board primarily during June 2003. These cases will be returned to the Board for review by the non-profit organization under contract to perform peer review investigations.

**Audit Scope, Objectives, and Methodology**

We have audited the Physician Rehabilitation and Peer Review Activities Programs of the Medical and Chirurgical Faculty of Maryland for the period beginning January 1, 2001 and ending December 31, 2002. The audit was conducted in accordance with generally accepted government auditing standards.

During the audit period, the Health Occupations Article, Section 14-402(e) of the Annotated Code of Maryland (effective through June 30, 2003), provided that the Secretary of the Department of Health and Mental Hygiene had approval authority over the use of certain fees that were collected by the State Board of Physician Quality Assurance and were transferred to the Faculty to fund the Programs. Additionally, the law provided that the Legislative Auditor shall biennially audit the accounts and transactions of the Programs.

The primary objectives of this audit were to evaluate internal control over the Faculty’s major financial related applications with regard to the Physician Rehabilitation and Peer Review Activities (for example, cash receipts and disbursements) and to review the related expenditures and compliance with applicable laws, rules and regulations. We also determined the status of the prior performance audit finding pertaining to certain peer review activities.

In planning and conducting our audit, we focused on the major financial related areas of the Faculty’s Programs based on assessments of materiality and risk. Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the related operations. We also tested transactions and performed such other auditing procedures as we considered necessary in the circumstances to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.
The Faculty’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 that are functioning properly.
AUDIT TEAM

Richard K. Drain, CPA
Audit Manager

Brian K. Roberts, CPA
Senior Auditor