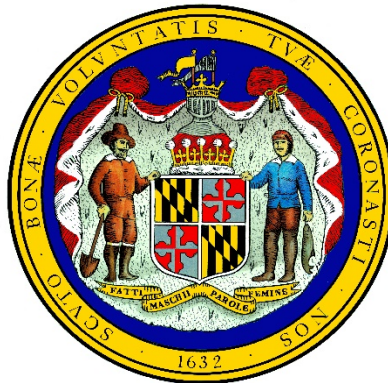


Audit Report

**Maryland Department of Health
Laboratories Administration**

June 2024



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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To Obtain Further Information

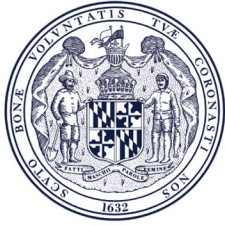
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

June 5, 2024

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Laboratories Administration of the Maryland Department of Health (MDH) for the period beginning January 8, 2020 and ending October 31, 2023. The Administration provides laboratory testing to assist physicians and health officials in the prevention, diagnosis, and control of human diseases.

Our audit disclosed that the Administration did not establish adequate controls over cash receipts and accounts receivable. Check collections totaled approximately \$8.4 million during fiscal year 2023. In addition, the Administration did not take timely collection action for delinquent accounts, which totaled approximately \$463,400 as of November 2023.

Our audit also included a review to determine the status of the finding contained in our preceding audit report. We determined that the Administration satisfactorily addressed this finding.

MDH's response to this audit, on behalf of the Administration, is included as an appendix to this report. We reviewed the response to our findings and related recommendations, and have concluded that the corrective actions identified are sufficient to address all audit issues.

We wish to acknowledge the cooperation extended to us during the audit by the Administration. We also wish to acknowledge MDH's and the Administration's willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive style with a prominent loop at the end of the last name.

Gregory A. Hook, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Laboratories Administration, a unit of the Maryland Department of Health (MDH), is responsible for providing laboratory testing to assist physicians and health officials in the prevention, diagnosis, and control of human diseases. To ensure the quality of laboratory services, the Administration develops standards and regulations for medical laboratories, tissue banks, and physician office laboratories. It also provides laboratory data for environmental safety and enforcement of environmental protection laws. According to the State’s records, the Administration’s central laboratory in Baltimore City and its two regional laboratories conducted approximately 9.3 million laboratory tests during fiscal year 2023, and the Administration’s expenditures totaled approximately \$52 million during fiscal year 2023 (See Figure 1).

Figure 1
Laboratories Administration
Positions, Expenditures, and Funding Sources

| Full-Time Equivalent Positions as of June 30, 2023 | | |
|--|---------------------|---------|
| | Positions | Percent |
| Filled | 174 | 86.1% |
| Vacant | 28 | 13.9% |
| Total | 202 | |
| Fiscal Year 2023 Expenditures | | |
| | Expenditures | Percent |
| Salaries, Wages, and Fringe Benefits | \$19,456,870 | 37.4% |
| Technical and Special Fees | 541,557 | 1.0% |
| Operating Expenses | 32,107,128 | 61.6% |
| Total | \$52,105,555 | |
| Fiscal Year 2023 Funding Sources | | |
| | Funding | Percent |
| General Fund | \$37,781,203 | 72.5% |
| Special Fund | 8,274,826 | 15.9% |
| Federal Fund | 5,708,392 | 11.0% |
| Reimbursable Fund | 341,134 | 0.6% |
| Total | \$52,105,555 | |

Source: State financial and personnel records

Ransomware Security Incident

In December 2021, MDH experienced a broad security incident resulting from a ransomware attack¹. This incident affected the entire MDH computer network and disrupted information technology operations for all MDH servers and end user computers, resulting in substantial impact on all MDH business operations including the Administration. MDH notified the Department of Information Technology's (DoIT) Office of Security Management, which initiated incident response measures. Various other parties were informed of this incident or engaged for recovery efforts. DoIT concluded that no evidence existed indicating that sensitive or regulated information had been improperly acquired.

The incident, response measures, and related controls were subject to review as part of our recent audit of the MDH Office of the Secretary and Other Units. This incident did not significantly impact our audit, and we were able to obtain information needed to satisfy our audit objectives and related conclusions.

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 April 10, 2020. We determined that the Administration satisfactorily addressed the finding.

Findings and Recommendations

Collections and Accounts Receivable

Finding 1

The Laboratories Administration did not establish adequate controls over cash receipts and accounts receivable.

Analysis

The Administration did not establish adequate controls over cash receipts and accounts receivable. Specifically, collections were not verified to subsequent deposit. In addition, certain collection and accounts receivable functions were not separated as required. The Administration received checks in the mail and in

¹ As defined by the federal Department of Homeland Security's Cybersecurity and Infrastructure Security Agency, ransomware is an ever-evolving form of malware designed to encrypt files on a device, rendering any files and the systems that rely on them unusable. Malicious actors then demand ransom in exchange for decryption.

person, primarily for the payment of lab fees. According to Administration records, during fiscal year 2023, checks collected totaled approximately \$8.4 million. The collections were processed using a remote deposit system, a process that scans the images of checks and electronically transmits those images to the bank for deposit.

Our review disclosed a documented independent deposit verification was not performed. The Administration advised us that while a review was performed, this review was completed prior to deposit and the employee responsible for performing this review was not independent of the cash receipts process. Specifically, this employee had access to the collections and also had the ability to modify the initial recordation spreadsheet. In addition, this employee was responsible for manually reviewing and approving the accounts receivable transactions related to the collections and reconciling the collections to the accounts receivable records. As a result, errors or other discrepancies could occur without timely detections and there was a lack of independent assurance that all collections had been deposited and that accounts receivable records were accurate.

Our test of 12 daily collections, totaling approximately \$4.7 million, during the period December 2021 through June 2023 confirmed our understanding that there was no documentation of the Administration performing independent verifications to ensure the collections were subsequently deposited. Our test also disclosed that all of the collections tested were deposited intact and had proper amounts credited to reduce related account balances.

The Comptroller of Maryland's *Accounting Procedures Manual* requires that collections be verified to deposit by an employee independent of the cash receipts functions and that cash handling and accounts receivable functions be segregated.

Recommendation 1

We recommend that the Administration

- a. ensure that documented deposit verifications are performed by an employee who does not have access to collections, and**
- b. separate cash receipts and accounts receivable functions.**

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

Finding 2

The Administration did not refer certain delinquent accounts receivables to the State's Central Collections Unit (CCU) as required.

Analysis

The Administration did not refer certain delinquent accounts receivable to CCU in a timely manner as required. The Administration provides laboratory testing services to local hospitals and individuals for various purposes, and then bills these entities for the testing that was provided. According to Administration records, as of November 16, 2023, outstanding accounts receivable totaled approximately \$2.5 million of which \$463,400 were more than 90 days past due, and therefore should have been referred to CCU.

We reviewed 15 outstanding accounts of either significant dollar amounts or significant age totaling approximately \$249,600 from the accounts which were delinquent for more than 90 days, and found that for 9 accounts totaling \$177,800, the accounts were forwarded to CCU between 52 and 184 days beyond 90 days after the related invoice date. The remaining 6 accounts totaling \$71,800 had not been referred to CCU as of November 30, 2023, for periods ranging from 64 to 396 days beyond the required date. We were advised by Administration personnel that accounts were not referred timely due to a lack of sufficient personnel because of employee turnover.

State regulations require accounts deemed uncollectible by an agency to be referred to CCU 90 days after the invoice date for additional collection efforts, such as tax refund intercepts.

Recommendation 2

We recommend that the Administration refer delinquent accounts to CCU in accordance with State regulations.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Laboratories Administration of the Maryland Department of Health (MDH) for the period beginning January 8, 2020 and ending October 31, 2023. 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 the Administration'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 cash receipts, accounts receivable, certain payroll activities, certain procurement activities, and corporate purchasing card activity. We also determined the status of the finding contained in our preceding audit report.

Our audit did not include certain support services provided to the Administration by MDH. These support services (such as certain other payroll and procurement activities, maintenance of accounting records, and related fiscal functions) are included within the scope of our audit of MDH – Office of the Secretary and Other Units. In addition, our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs and an assessment of the Administration's compliance with those laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including the Administration.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of January 8, 2020 to October 31, 2023, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of the Administration's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us

cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these sources were sufficiently reliable for the purposes the data were used during this audit.

We also extracted data from the Administration's laboratory information management system for the purpose of testing the propriety of billings, cash receipts, and accounts receivable. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

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. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to the Administration, were considered by us during the course of this audit.

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/or comply with applicable laws, rules, and regulations. The findings are also considered significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to the Administration that did not warrant inclusion in this report.

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

Exhibit 1
Listing of Most Recent Office of Legislative Audits
Fiscal Compliance Audits of Maryland Department of Health Units
As of April 2024 (Page 1 of 2)

| Name of Audit | | Areas Covered | Most Recent Report Date |
|---------------|--|--|-------------------------|
| 1 | Health Regulatory Commissions | <ul style="list-style-type: none"> • Maryland Health Care Commission • Health Services Cost Review Commission • Maryland Community Health Resources Commission | 01/25/24 |
| 2 | Medical Care Programs Administration – Managed Care Program | Managed Care Program, known as HealthChoice including oversight of the nine private Managed Care Organizations | 12/14/23 |
| 3 | Medical Care Programs Administration | Medical Care Programs Administration | 11/02/23 |
| 4 | Office of the Secretary and Other Units | <ul style="list-style-type: none"> • Office of the Secretary • Deputy Secretary and Executive Director for Behavioral Health • Deputy Secretary for Developmental Disabilities • Deputy Secretary for Public Health • Deputy Secretary for Health Care Financing and Chief Operating Officer • Deputy Secretary for Operations | 10/19/23 |
| 5 | Chronic Care Hospital Centers | <ul style="list-style-type: none"> • Deer’s Head Center • Western Maryland Hospital Center | 05/10/23 |
| 6 | Developmental Disabilities Administration | Developmental Disabilities Administration | 10/26/22 |
| 7 | Behavioral Health Administration and Medical Care Programs Administration - Administrative Service Organization for Behavioral Health Services | <ul style="list-style-type: none"> • Behavioral Health Administration • Medical Care Programs Administration Administrative Service Organization for Behavioral Health Services | 10/25/22 |
| 8 | Intellectual Disabilities Residential Centers | <ul style="list-style-type: none"> • Holly Center • Potomac Center • Secure Evaluation and Therapeutic Treatment | 10/24/22 |
| 9 | Regional Institute for Children and Adolescents | <ul style="list-style-type: none"> • John L. Gildner Regional Institute for Children and Adolescents • Regional Institute for Children and Adolescents – Baltimore | 07/13/22 |
| 10 | Office of the Chief Medical Examiner | Office of the Chief Medical Examiner | 05/12/22 |

Exhibit 1
Listing of Most Recent Office of Legislative Audits
Fiscal Compliance Audits of Maryland Department of Health Units
As of April 2024 (Page 2 of 2)

| Name of Audit | | Areas Covered | Most Recent Report Date |
|---------------|--|--|-------------------------|
| 11 | Prevention and Health Promotion Administration Office of Population Health Improvement Office of Preparedness and Response, and Office of Provider Engagement and Regulation | <ul style="list-style-type: none"> • Prevention and Health Promotion Administration • Office of Population Health Improvement • Office of Preparedness and Response • Office of Provider Engagement and Regulation – Office of Controlled Substances Administration • Office of Provider Engagement and Regulation – Prescription Drug Monitoring Program | 02/23/21 |
| 12 | Regulatory Services | <ul style="list-style-type: none"> • 22 Health Professional Boards and Commissions • The Office of Health Care Quality | 01/19/21 |
| 13 | Vital Statistics Administration | Vital Statistics Administration | 11/10/20 |
| 14 | Pharmacy Services | Pharmacy Services for <ul style="list-style-type: none"> • Medicaid Managed Care Program • Maryland Medicaid Pharmacy Program • Kidney Disease Program • Maryland AIDS Drug Assistance Program • Breast and Cervical Cancer Diagnosis and Treatment Program | 08/31/20 |
| 15 | Spring Grove Hospital Center | Spring Grove Hospital Center | 04/22/20 |
| 16 | Clifton T. Perkins Hospital Center | Clifton T. Perkins Hospital Center | 03/17/20 |
| 17 | Thomas B. Finan Hospital Center | Thomas B. Finan Hospital Center | 03/26/19 |
| 18 | Springfield Hospital Center | Springfield Hospital Center | 12/06/18 |
| 19 | Eastern Shore Hospital Center | Eastern Shore Hospital Center | 11/19/18 |



Wes Moore, Governor · Aruna Miller, Lt. Governor · Laura Herrera Scott, M.D., M.P.H., Secretary

June 4, 2024

Mr. Gregory A. Hook, CPA
Legislative Auditor
Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, MD 21201

Dear Mr. Hook:

Enclosed, please find the responses to the draft audit report on the Maryland Department of Health – Laboratories Administration for the period beginning January 8, 2020, and ending October 31, 2023.

If you have any questions, please contact Frederick D. Doggett at 410-767-0885 or email at frederick.doggett@maryland.gov.

Sincerely,

A handwritten signature in blue ink, appearing to read "Laura Herrera Scott".

Laura Herrera Scott, M.D., Secretary
Maryland Department of Health

cc: Erin K. McMullen, R.N., Chief of Staff, MDH
Marie Grant, Assistant Secretary for Health Policy,
Nilesh Kalyanaraman, M.D., Deputy Secretary, Public Health Services, MDH
Erin S. Penniston, Chief of Staff, Public Health Services, MDH
Robert A. Myers, Ph.D., Director, Laboratories Administration
Frederick D. Doggett, Director, Internal Controls, Audit Compliance & Information
Security, MDH
Deneen Toney, Deputy Director, Audit & Compliance, MDH
Carlean Rhames-Jowers, Audit Supervisor, Internal Controls, Audit Compliance &
Information Security, MDH

Maryland Department of Health Laboratories Administration

Agency Response Form

Collections and Accounts Receivable

Finding 1

The Laboratories Administration did not establish adequate controls over cash receipts and accounts receivable.

We recommend that the Administration

- a. ensure that documented deposit verifications are performed by an employee who does not have access to collections, and**
- b. separate cash receipts and accounts receivable functions.**

| Agency Response | | | |
|--|---|-----------------------------------|----------|
| Analysis | Factually Accurate | | |
| Please provide additional comments as deemed necessary. | | | |
| Recommendation 1a | Agree | Estimated Completion Date: | 12/31/24 |
| Please provide details of corrective action or explain disagreement. | The Laboratories Administration is developing a standard operating procedure (SOP) that will detail the processes for cash receipts and accounts receivable. The SOP will include controls to ensure that deposit verifications are performed by an employee who does not have access to collections or related records. The Administration will hire or assign additional staff to ensure successful implementation of the SOP. To ensure immediate compliance, the Chief Fiscal Officer and Deputy Director (backup) have begun verifying deposits so the A/R staff complies with the guidelines. | | |
| Recommendation 1b | Agree | Estimated Completion Date: | 12/31/24 |
| Please provide details of corrective action or explain disagreement. | The Labs Administration is developing a standard operating procedure (SOP) that will detail the processes for cash receipts and accounts receivable. The SOP will include controls to ensure the separation of duties between processing cash receipts and maintaining accounts receivable records. The Administration will hire or assign additional staff to ensure successful implementation of the SOP. To ensure immediate compliance, the Chief Fiscal Officer and Deputy Director (backup) will verify deposits so the A/R staff complies with the guidelines. | | |

Maryland Department of Health Laboratories Administration

Agency Response Form

Finding 2

The Administration did not refer certain delinquent accounts receivables to the State’s Central Collections Unit (CCU) as required.

We recommend that the Administration refer delinquent accounts to CCU in accordance with State regulations.

| Agency Response | | | |
|--|---|-----------------------------------|----------|
| Analysis | Factually Accurate | | |
| Please provide additional comments as deemed necessary. | | | |
| Recommendation 2 | Agree | Estimated Completion Date: | 12/31/24 |
| Please provide details of corrective action or explain disagreement. | The Laboratories Administration is developing a standard operating procedure (SOP) that details requirements for referring delinquent accounts to the CCU in order to ensure that these accounts are referred 90 days after the initial invoice date. We currently have a permanent staff to handle this process. | | |

AUDIT TEAM

Heather A. Warriner, CPA
Audit Manager

Anthony V. Calcagno
Senior Auditor

Zoe D. Smith
Staff Auditor