

M001
Chronic Disease Services
Department of Health and Mental Hygiene

Operating Budget Data

(\$ in Thousands)

	<u>FY 08</u> <u>Actual</u>	<u>FY 09</u> <u>Working</u>	<u>FY 10</u> <u>Allowance</u>	<u>FY 09-10</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$39,025	\$39,588	\$41,150	\$1,562	3.9%
Contingent & Back of Bill Reductions	0	0	-151	-151	
Adjusted General Fund	\$39,025	\$39,588	\$40,999	\$1,411	3.6%
Special Fund	4,294	4,808	5,113	305	6.4%
Contingent & Back of Bill Reductions	0	0	-12	-12	
Adjusted Special Fund	\$4,294	\$4,808	\$5,101	\$293	6.1%
Reimbursable Fund	494	587	423	-163	-27.9%
Contingent & Back of Bill Reductions	0	0	-2	-2	
Adjusted Reimbursable Fund	\$494	\$587	\$421	-\$165	-28.2%
Adjusted Grand Total	\$43,813	\$44,982	\$46,521	\$1,539	3.4%

- The proposed fiscal 2010 budget represents a \$1.5 million, or 3.4%, increase over the fiscal 2009 working appropriation.
- The general fund allowance constitutes the majority of the budget and increases by \$1.4 million, or 3.6%, over the fiscal 2009 working appropriation. The special fund allowance increases by \$0.3 million, or 6.1%; reimbursable fund allowance decreases by \$0.2 million, or 28.2%. Reimbursable fund income is available to Western Maryland Hospital Center (WMHC) from the Potomac Center and to Deer's Head Hospital Center (DHHC) from the Holly Center.
- Contingent reductions eliminate the deferred compensation match for State employees, reducing the budget for Chronic Disease Services by \$0.2 million.

Note: Numbers may not sum to total due to rounding.

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- A deficiency appropriation is proposed for fiscal 2009 to cover the Nursing Home Provider Assessment Fee imposed on State hospitals in the amount of \$113,374 for Western Maryland (\$102,037 in special funds from the Nursing Home Provider Fee and \$11,337 in general funds) and \$156,626 for Deer’s Head (\$140,963 in special funds from the Nursing Home Provider Fee and \$15,663 in general funds).

Personnel Data

	<u>FY 08</u> <u>Actual</u>	<u>FY 09</u> <u>Working</u>	<u>FY 10</u> <u>Allowance</u>	<u>FY 09-10</u> <u>Change</u>
Regular Positions	566.30	556.05	556.05	0.00
Contractual FTEs	<u>20.86</u>	<u>21.75</u>	<u>21.12</u>	<u>-0.63</u>
Total Personnel	587.16	577.80	577.17	-0.63

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	25.75	4.63%
Positions and Percentage Vacant as of 12/31/08	43.00	7.73%

- While the above chart does not reflect any abolished regular positions in the fiscal 2010 allowance, Section 18 of the budget bill indicates that 200.0 vacant positions will be abolished within the Department of Health and Mental Hygiene (DHMH).
- Board of Public Works cost containment actions taken in October 2008 abolished 10.25 full-time equivalent (FTE) positions within WMHC and DHHC, lowering the regular position count from 566.30 to 556.05.
- The fiscal 2010 allowance does reduce the budget for contractual positions by 0.63 FTE. Additionally, Section 23 of the budget bill indicates that \$1.7 million of general funds associated with contractual employees will be cut from the budget of DHMH.
- As of December 31, 2008, there were 43.0 vacant positions at WMHC and DHHC combined, representing 7.73% of the total allotted workforce.

Analysis in Brief

Major Trends

Medication Error Rate: During fiscal 2007, the Chronic Disease Services made changes to the format used to report medication errors resulting in a simplified and streamlined reporting procedure. The new format has contributed to greater reporting compliance and a higher number of reports and reported errors, accounting for some of the increase in medication errors.

Patient Fall Rate: While WMHC remains well below its internally set benchmark for patient fall rate, DHHC has fluctuated above and below its own internally set goal. The higher fall rates at DHHC are due to a difference in reporting requirements and a higher number of ambulatory patients.

Issues

Multiple Burdens on the Kidney Dialysis Units Continue to Lower Cost Recovery Rate: The cost of medication, equipment, and personnel to conduct dialysis continues to climb causing the hospitals to use a greater share of general funds to supplement the cost of dialysis services.

Position Reductions Limit Hospital Admissions: Actions taken by the Board of Public Works in October 2008 eliminated 10.25 vacant positions at the Chronic Disease hospitals. The practical effect of this action is a diminished capacity to serve patients at WMHC and DHHC, lowering the anticipated average daily population count.

Legislative Audit of Deer’s Head Hospital Center: An audit by the Office of Legislative Audits found discrepancies in the accounting department of the kidney dialysis unit including as much as \$1.5 million worth of outstanding accounts.

Recommended Actions

1. Concur with Governor’s allowance.

Updates

Capital Request for New Kidney Dialysis Unit: Funding is included in the Governor’s fiscal 2010 capital budget to construct a new addition at Deer’s Head Hospital Center for the kidney dialysis unit. The addition will address deficiencies in the current kidney dialysis unit and will reduce the number of nurses needed to supervise at DHHC.

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Chronic Disease Services
Department of Health and Mental Hygiene

Operating Budget Analysis

Program Description

The State's two chronic hospital centers, Western Maryland Hospital Center (WMHC) and Deer's Head Hospital Center (DHHC), provide specialized services for those in need of complex medical management, comprehensive rehabilitation, long-term care, or dialysis. Specifically, both centers provide:

- chronic care and treatment to patients requiring acute rehabilitation, at a level greater than that available at a nursing home, for management of complex medical issues such as respiratory, coma, traumatic brain injury, spinal cord injury, wound management, dementia, cancer care, and quarantined tuberculosis;
- long-term nursing home care for patients no longer in need of hospital-level care but unable to function in traditional nursing homes; and
- inpatient and outpatient renal dialysis services.

Performance Analysis: Managing for Results

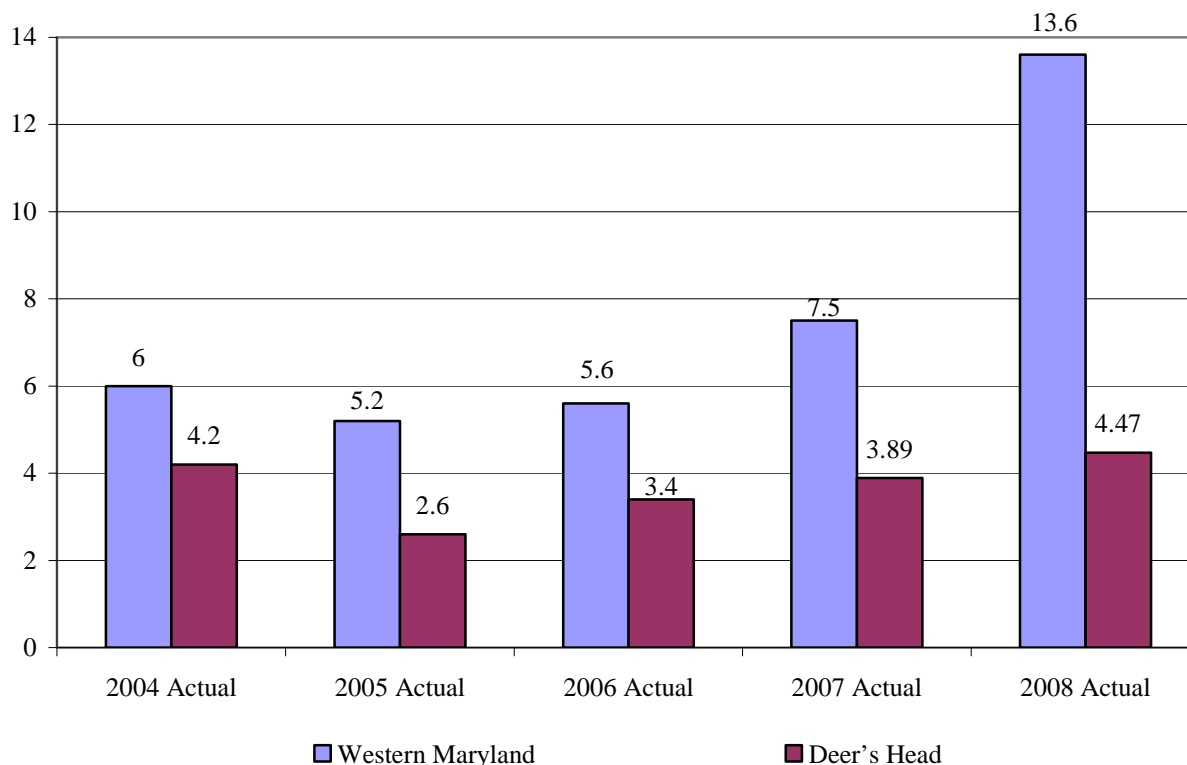
A high priority of the Chronic Disease hospitals is to keep patients safe from falls, medication errors, and dangerous illnesses that hamper the individual's recovery process. As such, the first goal reported in the Managing for Results data is to operate with a "Culture of Safety" to keep patients, residents, and staff members safe at both WMHC and DHHC in order to aid in the recovery process.

The National Coordinating Council for Medication Error Reporting and Prevention defines a medication error as any preventable event that may cause or lead to inappropriate medication use or patient harm while the medication is in control of the health care professional, patient, or consumer. Currently, an industry benchmark for medication error rates does not exist.

Exhibit 1 shows the medication error rate per 1,000 patient care days (PCD) at WMHC and DHHC.¹ As the chart shows, there was a dramatic increase in medication errors at WMHC from fiscal 2007 to 2008 and a less dramatic, but steady increase in medication errors at DHHC. During fiscal 2007, WMHC made changes to the format used to report medication errors resulting in a simplified and streamlined reporting procedure. The new format has contributed to greater reporting compliance and a higher number of reports and reported errors, accounting for some of the increase in medication errors.

¹ Patient care days are calculated by multiplying the average daily population by the number of days in a month.

Exhibit 1
Medication Error Rate
Per 1,000 Patient Care Days
Fiscal 2004-2008



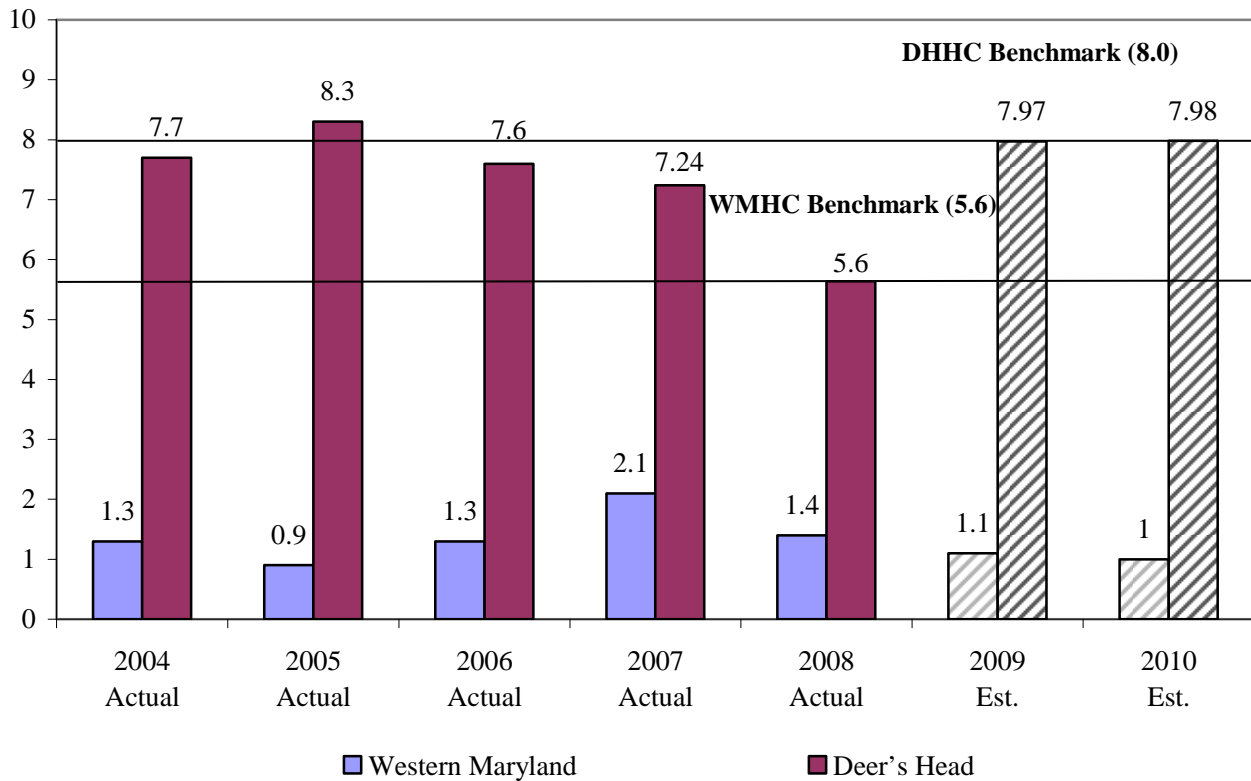
Source: Department of Health and Mental Hygiene

There is a marked difference between the populations at WMHC and DHHC, which helps to explain the difference in medication error rates. The higher medication error rates at WMHC are due to more chronic hospital patients and fewer nursing home patients as compared to DHHC. Chronic hospital patients are typically sicker and require more medications, which naturally leads to more opportunities for errors.

To maintain a culture of safety, medication errors are reviewed monthly at WMHC and quarterly at DHHC to identify trends and to establish or revise policies and procedures as needed. Medication errors are also reviewed annually by the Office of Health Care Quality to evaluate staff competency and compliance with pertinent regulations.

The other principal measure of safety at the chronic hospitals is the rate of falls per 1,000 PCDs, illustrated in **Exhibit 2**. A “fall” is defined as an occurrence when a patient hits the floor, from any height, for any reason. Nurses assess patients for fall potential on admission and at established intervals using a fall assessment tool called the Morse Fall Scale. This tool is used to score patients on criteria related to fall risk potential which includes the level of consciousness/mental status, history of falls, vision status, gait or balance, blood pressure, medications, and predisposing diseases. Use of the Morse Fall Scale also helps to initiate fall prevention interventions. Precautions include using bed and wheelchair alarms, adjusting bed heights, establishing a clutter free environment, and placing a falling leaf sign outside of a patient’s room as a reminder to the staff.

**Exhibit 2
Patient Fall Rate
Per 1,000 Patient Care Days
Fiscal 2004-2010**



DHHC: Deer’s Head Hospital Center
WMHC: Western Maryland Hospital Center

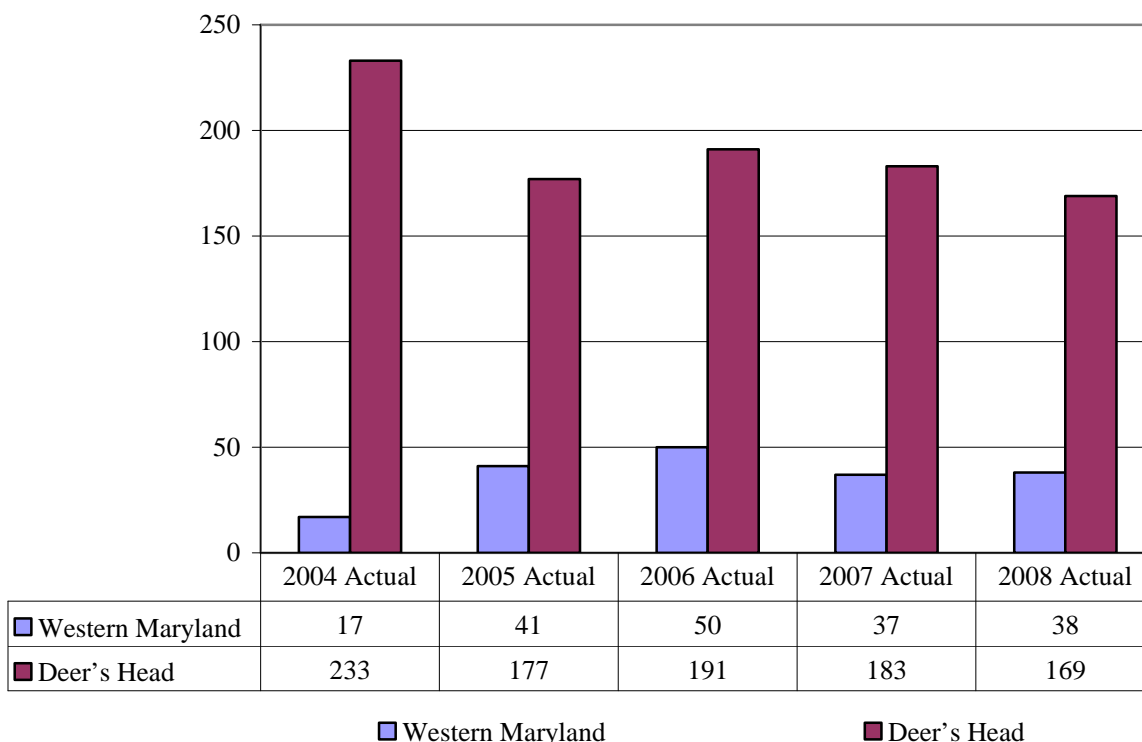
Source: Department of Health and Mental Hygiene

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As shown in Exhibit 2, between fiscal 2004 and 2008, the fall rate at WMHC has remained well below the internal historical rate of 5.6 falls per 1,000 PCDs. At DHHC, the fall rate has fluctuated above and below the internal historical benchmark of 8.0 falls per 1,000 PCDs since fiscal 2004, ranging from a high of 8.3 in fiscal 2005 to a low of 5.6 in fiscal 2008. The higher fall rates at DHHC are due to a difference in reporting requirements and a higher number of ambulatory patients. Although no universally accepted national benchmark exists for fall rates, a range between 11.0 to 24.9 falls per 1,000 PCDs is generally accepted. The fall rate at both hospitals remains well below this range. To reduce fall rates, patient safety is discussed at regular intervals or immediately if a patient demonstrates a change in condition.

Besides rehabilitation and skilled nursing services offered at WMHC and DHHC, a major component of care offered to patients is renal dialysis services. Both inpatient and outpatient renal dialysis is offered at the chronic hospitals. **Exhibit 3** shows the total number of patients treated between fiscal 2004 and 2008.

Exhibit 3
Renal Dialysis Patients
Fiscal 2004-2008



Source: Department of Health and Mental Hygiene

While the number of patients has generally decreased at both hospitals from fiscal 2006 to 2008, the cost to serve those individuals has increased. Factors that increase the cost include the cost of medicine, lower Medicare reimbursement rates, and the necessity for longer treatment times due to larger patients.

Fiscal 2009 Actions

Proposed Deficiency

Deficiency appropriations were issued for both WMHC and DHHC to provide additional funds to cover the Nursing Home Provider Assessment on State Hospitals. For both deficiency appropriations, the majority of the funds are special funds from the Nursing Home Provider Fee special fund.

Impact of Cost Containment

The Board of Public Works (BPW) met twice during the interim to reduce the fiscal 2009 working appropriation. First, cost containment actions approved by BPW in June 2008 reduced the general fund appropriation by \$276,463 and the special fund appropriation by \$16,264 for personnel expenses.

In October 2008, actions taken by BPW reduced the budget by an additional \$1.1 million in general funds for personnel expenses. This reduction had a far greater impact on services offered at the hospitals as 4.75 full-time equivalent (FTE) vacant positions were cut at WMHC, and 5.5 FTE vacant positions were cut at DHHC. The position cut forces the hospitals to admit fewer patients and has lowered the hospitals' estimated patient count in fiscal 2009 and beyond. Fringe benefit appropriations were also reduced as Other Post Employment Benefits (OPEB) prefunding ceased and statewide employee health insurance balances were used in lieu of budgeted funds. Lastly, the BPW cost containment also cut \$0.3 million for payment on an energy loan program. Special funds from the Regional Greenhouse Gas Initiative were used in place of the general funds.

Proposed Budget

The Governor's allowance for Chronic Disease Services, as shown in **Exhibit 4**, increases by \$1.5 million, or 3.4%. The majority of the budget consists of general funds, which increase by \$1.4 million, or 3.6%, over the fiscal 2009 working appropriation. The special fund allowance increases by \$0.3 million, or 6.1%, and reimbursable funds decrease by \$0.2 million, or 28.2%.

Exhibit 4
Proposed Budget
DHMH – Chronic Disease Services
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Reimb. Fund	Total
2009 Working Appropriation	\$39,588	\$4,808	\$587	\$44,982
2010 Allowance	<u>41,150</u>	<u>5,113</u>	<u>423</u>	<u>46,686</u>
Amount Change	\$1,562	\$305	-\$163	\$1,704
Percent Change	3.9%	6.4%	-27.9%	3.8%
Contingent Reductions	-\$151	-\$12	-\$2	-\$165
Adjusted Change	\$1,411	\$293	-\$165	\$1,539
Adjusted Percent Change	3.6%	6.1%	-28.2%	3.4%

Where It Goes:

Personnel Expenses	\$38
Employee and retiree health insurance	\$921
State contribution to employee retirement.....	257
Nurse retention bonuses.....	63
Turnover adjustments	37
Savings based on fiscal 2009 position reduction annualization.....	-588
Eliminate Other Post Employment Benefit funding	-274
Eliminate deferred compensation (contingent on HB 101)	-165
Workers' compensation premium assessment.....	-153
Other fringe benefit adjustments	-32
Overtime, shift differentials, and additional assistance	-26
Other Changes	\$1,501
Medical supplies, materials, and medicine for both hospitals	524
Nursing Home Provider Assessment both hospitals.....	270
Energy Loan Repayment for Deer's Head Hospital Center.....	267
Increased contractual labor based on fiscal 2008	142
Increased fuel and utilities for both hospitals	134
Lab supplies for both hospitals	95

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Where It Goes:

Office and dietary supplies	62
Other	56
Contractual employees.....	-47
Total	\$1,539

Note: Numbers may not sum to total due to rounding.

Personnel

As Exhibit 4 indicates, personnel costs only increase by approximately \$38,000 over the working appropriation. Employee and retiree health insurance increases by \$0.9 million and constitutes the largest total increase in the budget. State contribution to retirement for employees at WMHC and DHHC increases the budget by \$0.3 million. Retention bonuses for nurses at the hospitals add \$63,695 to personnel costs. This increase reflects the actual cost of this bonus versus what has previously been budgeted.

Those large increases are offset, however, by other decreases in personnel costs including reduction of salaries (\$588,326); elimination of OPEB liability funding (\$274,179); elimination of State contribution to deferred compensation (\$165,280); and reduction of workers' compensation premium assessments due to a lower total workforce (\$152,691).

Operating Budget

Operating expenses in the Governor's fiscal 2010 allowance, excluding personnel costs, increase by \$1.5 million over the fiscal 2009 working appropriation. By far the largest change results from the increased cost of medical supplies and materials as well as medicine for the hospitals (\$523,534). The medicine for the kidney dialysis unit is a large component of the overall costs for medicine. While Medicare Part D, prescription drug coverage, covers the cost for many of the chronic hospital patients and renal dialysis patients, the general fund contribution for medicine and drugs continues to increase.

The chronic hospitals will be required to pay the nursing home provider assessment fee each year. In fiscal 2009, the hospitals received a deficiency appropriation to pay the assessment, but in fiscal 2010 the assessment is built into the Governor's allowance. The total cost of the assessment is \$270,000 – WMHC will pay \$113,374 and DHHC will pay \$156,626.

A loan repayment program at DHHC increases the budget by \$266,949. DHHC entered into an agreement with Johnson Controls to build a new boiler room and make payments on the purchase over a period of many years. In fiscal 2009, special funds from the Regional Greenhouse Gas Initiative were used. In fiscal 2010, general funds will be used to make the payment.

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Other factors contributing to the increase in operating expenses include increased contractual labor based on fiscal 2008 average daily population (\$141,525); increased fuel and utilities (\$133,668); laboratory supplies (\$95,125); and office and dietary supplies (\$61,501).

Funding for contractual employees decreased by \$47,479 in fiscal 2010 due to a net contractual position loss of a 0.63 FTE at WMHC.

Issues

1. Multiple Burdens on the Kidney Dialysis Units Continue to Lower Cost Recovery Rate

The Kidney Dialysis Unit at Western Maryland Hospital Center and Deer’s Head Hospital Center are supported with general funds and special funds generated by collections from patients and third-party payers. **Exhibit 5** shows the costs and revenues associated with the renal dialysis program at WMHC and DHHC between fiscal 2005 and 2010. As the exhibit shows, the volume is much greater at DHHC than at WMHC. In fiscal 2008, WMHC spent approximately \$1.0 million on renal dialysis services, whereas DHHC spent \$4.2 million. Those costs are expected to grow to \$1.1 and \$4.6 million, respectively, in fiscal 2010.

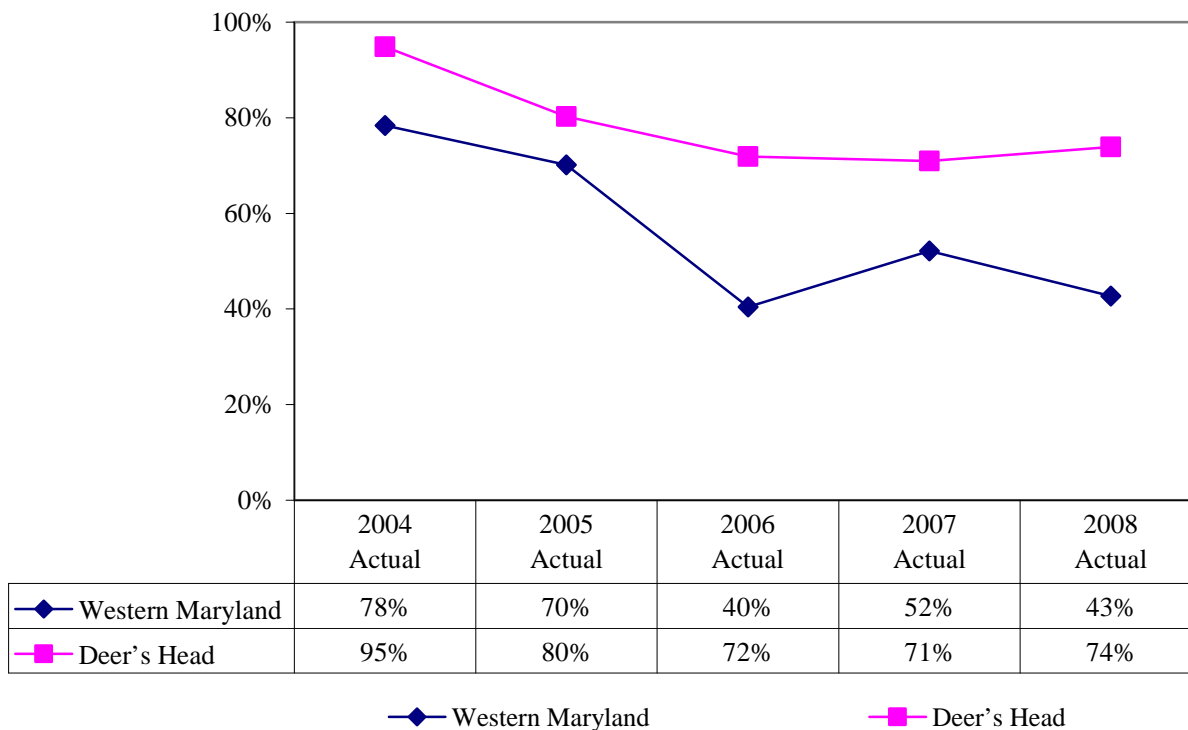
Exhibit 5
Renal Dialysis Costs and Revenues
Fiscal 2005-2010

	<u>2005</u> <u>Actual</u>	<u>2006</u> <u>Actual</u>	<u>2007</u> <u>Actual</u>	<u>2008</u> <u>Actual</u>	<u>2009</u> <u>Approp.</u>	<u>2010</u> <u>Estimate</u>
Western Maryland Hospital Center						
Special funds	\$526,117	\$407,974	\$495,471	\$444,173	\$624,111	\$529,739
General funds	223,612	601,249	454,172	596,426	430,860	585,241
Total	\$749,729	\$1,009,223	\$949,643	\$1,040,599	\$1,054,971	\$1,114,980
Deer’s Head Hospital Center						
Special funds	\$3,903,334	\$2,860,058	\$2,829,734	\$3,103,078	\$3,018,451	\$2,966,900
General funds	961,877	1,118,026	1,156,853	1,097,807	1,278,313	1,660,431
Total	\$4,865,211	\$3,978,084	\$3,986,587	\$4,200,885	\$4,296,764	\$4,627,331

Source: Department of Health and Mental Hygiene

The percent of expenses recovered is influenced by many factors including the number of treatments provided, patient acuity, patient case mix (outpatients vs. inpatients), drug costs, and third-party reimbursement rates. **Exhibit 6** shows the cost recovery for renal dialysis services as a percentage of funds “recovered” through special funds received to pay for services performed at WMHC and DHH. General funds supplement the special funds to cover the total cost of renal dialysis. The overall rate of cost recovery has fallen sharply since fiscal 2004. At WMHC, the recovery rate has fallen from 78% in fiscal 2004, to 43% in fiscal 2008. At DHHC, the recovery rate has fallen from 95% in fiscal 2004 to 74% in fiscal 2008.

**Exhibit 6
Cost Recovery from Renal Dialysis Services
Fiscal 2004-2008**



Source: Department of Health and Mental Hygiene

Losses experienced by the two facilities are primarily the result of costs rising faster than Medicare and other insurance reimbursement rates, particularly for hospital services. Additionally, both centers are seeing an increase in the number of chronic hospital inpatients requiring dialysis. This is likely due to an aging population and a higher prevalence of obesity in our society. The dialysis units, however, cannot bill directly for treatments provided to chronic hospital inpatients due to the hospitals' federal all-inclusive rates. The hospital bills the third-party payers directly, and the reimbursement is deposited into the general fund. The portion of the reimbursement that is attributable to the dialysis treatment is returned to the dialysis unit as special funds. However, these rates are lower than the rates the dialysis unit bills for outpatient services. Therefore, inpatient billing is not as lucrative as billing for outpatient services. Outpatient treatments have decreased by about 5% each year which results in less revenue and a smaller base on which to spread fixed costs.

Cost of medication, equipment, and personnel to conduct dialysis continues to climb at a higher rate than Medicare reimbursement rates causing the hospitals to use more general funds to supplement the cost of dialysis. At DHHC, bariatric patients, a term used to describe morbidly obese

patients, require a six- to eight-hour treatment as opposed to the regular two- to three-hour treatment. These patients not only require more medication, but they also use two dialysis slots even though the hospital only gets reimbursed for one.

Because the total number of patients needing dialysis services varies from year to year, it is hard to estimate the total cost. However, given the fact that Medicare reimbursements are not keeping up with costs and the fact that hospitals cannot receive any extra money from chronic hospital patients due to the all inclusive per diem, general funds will continue to be needed to supplement the overall costs of renal dialysis. It is important to note however, that Chronic Disease Services has improved its cost estimates for the program.

The agency should comment on steps it is taking to receive higher reimbursement rates for bariatric patients as well as other techniques that will increase the cost recovery rate and lower the general fund liability for the renal dialysis program.

2. Position Reductions Limit Hospital Admissions

The October BPW actions eliminated 4.75 FTE positions at WMHC and 5.5 FTE positions at DHHC. **Exhibit 7** lists the positions abolished in accordance with the BPW action. Due to a smaller workforce, the hospitals will not be able to admit and care for as many patients in fiscal 2009 as previously planned.

Although the positions were all vacant, losing funding associated with the positions reduces the agency's overall budget and leaves less money for contractual employees, overtime, and shift differential costs. These factors contribute to fewer resources for the hospitals to care for patients.

Exhibit 7
Positions Eliminated by October 2008 BPW Action

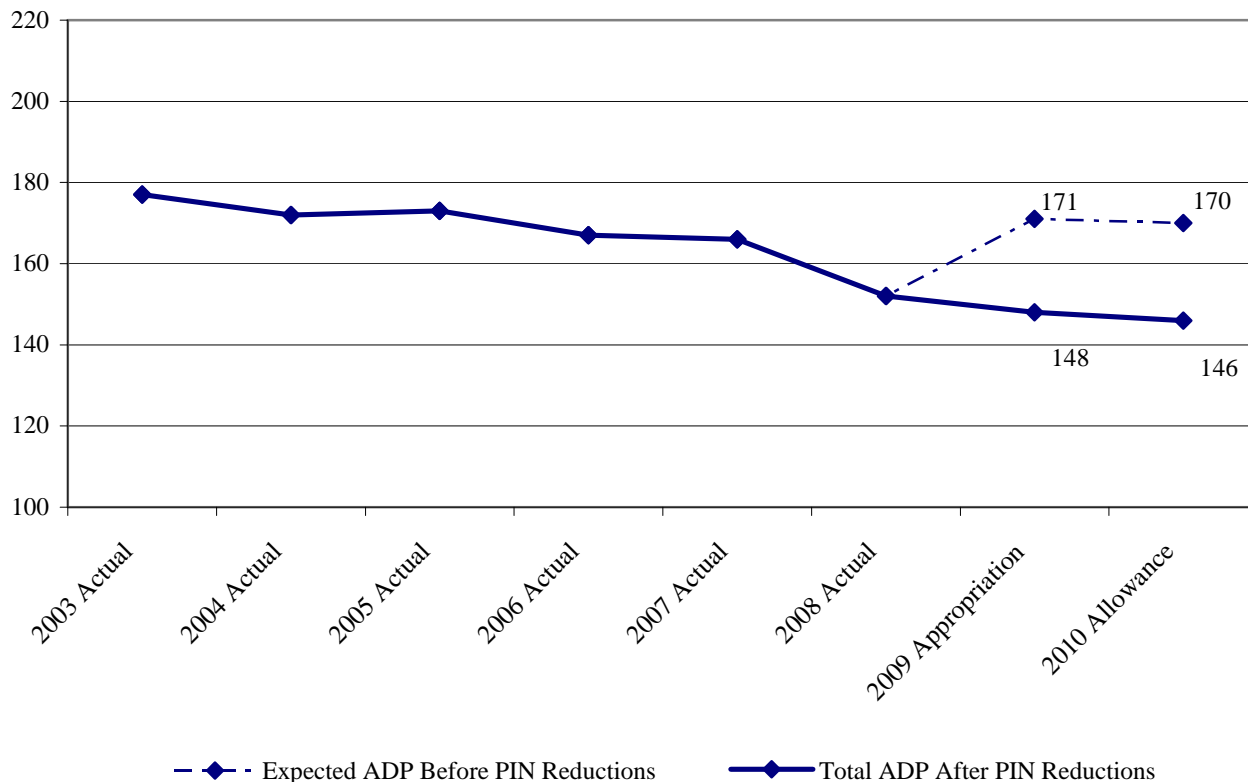
<u>Hospital</u>	<u>Position Title</u>	<u>FTE</u>
WMHC	Agency Procurement Associate II	0.50
WMHC	Food Service Worker I	0.50
WMHC	Food Service Worker I	1.00
WMHC	Physical Therapy Assistant II	1.00
WMHC	Physical Therapist III	0.25
WMHC	Registered Nurse Charge Med	0.50
WMHC	Data Communications Tech II	1.00
	Subtotal	4.75
DHHC	Building Service Worker II	1.00
DHHC	Direct Care Trainee	1.00
DHHC	Direct Care Trainee	1.00
DHHC	Geriatric Nursing Assistant II	1.00
DHHC	Geriatric Nursing Assistant II	0.50
DHHC	Office Services Clerk	1.00
	Subtotal	5.50
	Total at WMHC and DHHC	10.25

BPW: Board of Public Works
FTE: full-time equivalent
DHHC: Deer's Head Hospital Center
WMHC: Western Maryland Hospital Center

Source: Department of Health and Mental Hygiene

Exhibit 8 shows the combined average daily population (ADP) at WMHC and DHHC since fiscal 2003. With the exception of fiscal 2008, the average daily population for the hospitals has hovered between 166 and 177 patients each year. However, the position reduction in October 2008 caused the estimated ADP for fiscal 2009 and 2010 to drop to 148 and 146, respectively. In order to maintain quality services, WMHC and DHHC will have to lower the number of patients that can be treated.

**Exhibit 8
Average Daily Population at Chronic Disease Hospitals
Fiscal 2003-2010**



ADP: average daily population
PIN: position identification number

Source: Department of Health and Mental Hygiene

In light of the fact that the Chronic Disease hospitals care for patients that private providers are unwilling to accept, the agency should comment on the affect that a lower ADP will have on the population that it serves. The agency should also comment on any efficiency measures that can be implemented to serve more patients with less money.

3. Legislative Audit of Deer’s Head Hospital Center

The Office of Legislative Audits (OLA) conducted an audit of Deer’s Head Hospital Center for the period beginning April 1, 2005, and ending January 13, 2008, and found substantial

discrepancies in the accounting department of its kidney dialysis unit, a failure to follow State procurement regulations for the procurement of goods and services, issues with vendor payments, and a failure to conduct equipment inventory at regular intervals. A complete list of the findings by OLA can be found in **Appendix 2** of this document.

Kidney Dialysis Unit

The majority of the findings cited by OLA concern the accounts receivable department for the kidney dialysis unit. The accounting department for DHHC also bills for renal dialysis services provided by WMHC and maintains the related records for those accounts. OLA found that internal controls and recordkeeping procedures within the kidney dialysis unit were inadequate. In particular, OLA found that DHHC did not always process billings and record the related receipts in a timely manner. DHHC policy requires that all services be billed within five days after the close of the month in which services were provided and all collections received be posted to the patient's account within three working days of receipt.

Also, OLA found that DHHC did not take appropriate actions to collect amounts due from outstanding accounts. As of February 14, 2008, accounts receivable that were outstanding 91 days or more totaled approximately \$1.5 million. For some of these accounts, DHHC had not made any collection efforts beyond the initial billing even though the related balances had been outstanding for as long as 54 months.

Other Findings

OLA found that DHHC did not always seek competitive bids for procurement of goods, including five vendors that were paid \$1.4 million for goods and services. The audit found that DHHC did not obtain bids or obtain State control agency approvals for those contracts.

The audit also found that DHHC did not always review and manually approve invoices before payment. In some cases, payments to one vendor for patient medication were not compared to the related contract to ensure that DHHC received appropriate discounts. OLA's review of a pharmaceutical vendor's June 2007 invoice disclosed that DHHC was overcharged for 46 items.

DHHC Response

DHHC concurred with all OLA findings and recommendations contained within the July 2008 audit. In its written response, the agency stated that it would take several steps to remedy the concerns raised in the audit. First, DHHC stated that it would work toward the five-day from month end billing policy to address the concerns that the agency did not always process billings and record receipts in a timely manner. DHHC set a target month of October 2008 to have the policy fully implemented.

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DHHC also stated that it would follow the guidelines of the Central Collection Unit (CCU) and pursue collection of delinquent accounts in response to the finding that accounts summing to \$1.5 million were outstanding 91 days or more. After three demands at 30-day intervals, DHHC stated that it would forward the claim to the CCU and will also pursue collection of accounts with secondary insurers.

Lastly, DHHC stated that it would comply with the requirements of the State procurement regulation, including documenting the reasons for sole-source procurements.

The agency should update the committees as to whether appropriate steps have been taken by its accounts receivable department to address the financial discrepancies identified by the audit.

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Capital Request for New Kidney Dialysis Unit

The Governor’s fiscal 2010 capital budget summary includes funds to create a consolidated kidney dialysis unit at Deer’s Head Hospital Center. Currently, DHHC’s kidney dialysis units are spread throughout the building, requiring multiple nurses to supervise patients receiving dialysis. By consolidating the unit into one space, there will only be a need for one nurse to supervise patients.

The new addition, which will house the kidney dialysis unit, will provide sufficient space to maintain and slightly increase the number of kidney dialysis patients treated, increase the size of the dialysis stations to meet regulatory requirements, and provide a building compliant with standards set forth in the Americans with Disabilities Act.

A more comprehensive review of the project will be conducted in the capital budget analysis for Chronic Disease Services.

Current and Prior Year Budgets

Current and Prior Year Budgets Chronic Disease Services (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2008					
Legislative Appropriation	\$38,694	\$4,806	\$0	\$451	\$43,951
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	861	198	0	45	1,104
Cost Containment	-530	0	0	0	-530
Reversions and Cancellations	0	-709	0	-2	-711
Actual Expenditures	\$39,025	\$4,294	\$0	\$494	\$43,813
Fiscal 2009					
Legislative Appropriation	\$40,725	\$4,782	\$0	\$587	\$46,094
Cost Containment	-1,678	-16	0	0	-1,695
Budget Amendments	541	42	0	0	583
Working Appropriation	\$39,588	\$4,808	\$0	\$587	\$44,982

Note: Numbers may not sum to total due to rounding.

Fiscal 2008

In fiscal 2008, the budget for the Chronic Disease Services closed at \$43.8 million, a decrease of \$0.1 million over the legislative appropriation.

The general fund appropriation increased by \$0.3 million during fiscal 2008 due to \$0.9 million in budget amendments and \$0.5 million in cost containment reductions. Specifically, the budget amendments increased the budget for a cost-of-living adjustment (\$458,514), utility rate increases at the hospitals (\$183,594), nurse retention bonuses (\$142,141), and ventilator unit renovations at Western Maryland Hospital Center (\$76,731).

Two cost containment actions contributed to the \$0.5 million reduction cited above. First, a cost containment measure approved by the Board of Public Works in July 2007 reduced general funds at WMHC by \$236,213 for contractual services and supplies and materials and at Deer's Head Hospital Center by \$233,418 for contractual services and supplies and materials. The reductions at the hospitals were offset by savings realized from Medicare Part D. Second, in accordance with Section 10 of Chapter 2 of the 2007 special session, BPW reduced funds associated with 500.15 positions across all agencies including 2.0 positions at WMHC, resulting in a general fund reduction of \$60,667.

The special fund appropriation increased by \$0.2 million during fiscal 2008 due to cost-of-living adjustments (\$40,347) and a transfer from Nursing Home Provider Fees to cover the cost of a nursing facility quality assessment for WMHC and DHHC (\$157,354).

The reimbursable fund appropriation increased by \$44,929 in fiscal 2008 from the Potomac Center (Developmental Disabilities Administration) to cover the cost of providing dietary services to Potomac Center patients.

At the end of the year, \$0.7 million of the special fund appropriation was cancelled at WMHC and DHHC primarily due to lower renal dialysis collection (\$577,161) and decreased food sales (\$110,372).

Fiscal 2009

The Chronic Disease Services working appropriation for fiscal 2009 is \$1.1 million lower than the original legislative appropriation. The majority of the change is attributable to \$1.7 million in cost containment reductions. Budget amendments added \$0.6 million to the budget.

Two separate cost containment measures account for the \$1.7 million decrease in fiscal 2009. First, cost containment actions approved by BPW in June 2008 reduced the general fund appropriation by \$276,463 and the special fund appropriation by \$16,264 for fiscal 2009 for personnel expenses.

M001 – DHMH – Chronic Disease Services

In October 2008, actions taken by BPW reduced the budget by an additional \$1.4 million in general funds that eliminated 10.25 full-time equivalent positions, reduced OPEB funding and health insurance costs, and reduced funding for fuel and utilities at DHHC.

Budget amendments increased the general fund appropriation for fiscal 2009 for cost-of-living adjustments (\$477,151), for nurse retention bonuses previously budgeted in DHMH's Office of the Secretary (\$47,410), and for annual salary review adjustments for laboratory scientists at WMHC and DHHC (\$15,997).

Audit Findings (Deer’s Head Hospital Center)

Audit Period for Last Audit:	April 1, 2005 – January 13, 2008
Issue Date:	July 2008
Number of Findings:	7
Number of Repeat Findings:	0
% of Repeat Findings:	0
Rating: (if applicable)	

- Finding 1:** Deer’s Head Hospital Center did not process billings and record the related receipts in a timely manner.
- Finding 2:** DHHC did not take appropriate action to collect outstanding accounts.
- Finding 3:** Internal controls over accounts receivable and related cash receipts were not adequate.
- Finding 4:** Adequate recordkeeping procedures were not established as accounts receivable records were not reconciled, and accrued revenues recorded at fiscal year end were not adequately documented.
- Finding 5:** DHHC did not always follow State Procurement Regulations for procurement of goods and services.
- Finding 6:** DHHC did not ensure that certain invoices for services and goods were reviewed and manually approved prior to payment.
- Finding 7:** Equipment inventories were not conducted at required intervals.

**Object/Fund Difference Report
DHMH – Chronic Disease Services**

<u>Object/Fund</u>	<u>FY 08 Actual</u>	<u>FY 09 Working Appropriation</u>	<u>FY 10 Allowance</u>	<u>FY 09 – FY 10 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	566.30	556.05	556.05	0	0%
02 Contractual	20.86	21.75	21.12	-0.63	-2.9%
Total Positions	587.16	577.80	577.17	-0.63	-0.1%
Objects					
01 Salaries and Wages	\$ 31,399,302	\$ 34,169,799	\$ 34,373,300	\$ 203,501	0.6%
02 Technical and Spec. Fees	1,232,706	1,097,684	1,041,579	-56,105	-5.1%
03 Communication	138,829	121,227	136,693	15,466	12.8%
04 Travel	30,239	24,625	19,896	-4,729	-19.2%
06 Fuel and Utilities	1,477,256	1,296,800	1,697,781	400,981	30.9%
07 Motor Vehicles	49,524	41,623	49,445	7,822	18.8%
08 Contractual Services	2,813,544	2,222,892	2,696,011	473,119	21.3%
09 Supplies and Materials	6,198,954	5,746,729	6,458,031	711,302	12.4%
10 Equipment – Replacement	173,629	138,209	108,671	-29,538	-21.4%
11 Equipment – Additional	172,261	19,172	14,422	-4,750	-24.8%
12 Grants, Subsidies, and Contributions	10,752	24,339	10,000	-14,339	-58.9%
13 Fixed Charges	115,566	78,987	80,267	1,280	1.6%
Total Objects	\$ 43,812,562	\$ 44,982,086	\$ 46,686,096	\$ 1,704,010	3.8%
Funds					
01 General Fund	\$ 39,024,777	\$ 39,587,600	\$ 41,149,796	\$ 1,562,196	3.9%
03 Special Fund	4,293,977	4,807,928	5,113,232	305,304	6.4%
09 Reimbursable Fund	493,808	586,558	423,068	-163,490	-27.9%
Total Funds	\$ 43,812,562	\$ 44,982,086	\$ 46,686,096	\$ 1,704,010	3.8%

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.

**Fiscal Summary
DHMH – Chronic Disease Services**

<u>Program/Unit</u>	<u>FY 08 Actual</u>	<u>FY 09 Wrk Approp</u>	<u>FY 10 Allowance</u>	<u>Change</u>	<u>FY 09 – FY 10 % Change</u>
03 Western Maryland Center	\$ 21,942,954	\$ 22,432,549	\$ 22,966,855	\$ 534,306	2.4%
04 Deer's Head Center	21,869,608	22,549,537	23,719,241	1,169,704	5.2%
Total Expenditures	\$ 43,812,562	\$ 44,982,086	\$ 46,686,096	\$ 1,704,010	3.8%
General Fund	\$ 39,024,777	\$ 39,587,600	\$ 41,149,796	\$ 1,562,196	3.9%
Special Fund	4,293,977	4,807,928	5,113,232	305,304	6.4%
Total Appropriations	\$ 43,318,754	\$ 44,395,528	\$ 46,263,028	\$ 1,867,500	4.2%
Reimbursable Fund	\$ 493,808	\$ 586,558	\$ 423,068	-\$ 163,490	-27.9%
Total Funds	\$ 43,812,562	\$ 44,982,086	\$ 46,686,096	\$ 1,704,010	3.8%

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.