

# STATE OF NORTH CAROLINA

**DEPARTMENT OF HEALTH AND HUMAN SERVICES  
DIVISION OF STATE OPERATED HEALTHCARE FACILITIES**

**FINANCIAL RELATED AUDIT**

**CENTRAL REGIONAL HOSPITAL**

**JUNE 2013**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**DEPARTMENT OF HEALTH AND HUMAN SERVICES  
DIVISION OF STATE OPERATED HEALTHCARE FACILITIES**

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CENTRAL REGIONAL HOSPITAL**

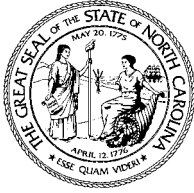
**JUNE 2013**

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**AUDITOR'S TRANSMITTAL**

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June 6, 2013

The Honorable Pat McCrory, Governor  
Members of the North Carolina General Assembly  
Dr. Aldona Wos, Secretary, Department of Health and Human Services

This report presents the results of our financial related audit at Central Regional Hospital. Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The results of our audit disclosed deficiencies in internal control that are considered reportable under *Government Auditing Standards*. These items are described in the *Audit Findings and Responses* section of this report.

*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the ways listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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## BACKGROUND

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As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a financial related audit at Central Regional Hospital. There were no special circumstances that caused us to conduct the audit, but rather it was performed as part of our effort to periodically examine and report on the financial practices of state agencies and institutions.

Central Regional Hospital is one of three State psychiatric hospitals in North Carolina. It is operated by the Division of State Operated Healthcare Facilities and the Division of Mental Health, Developmental Disabilities and Substance Abuse Services of the Department of Health & Human Services.

Central Regional Hospital is a 398-bed hospital that serves the acute mental health needs of North Carolina citizens from 26 counties and employs more than 1,900 staff, including 50 doctors, 240 professional nursing staff, and more than 400 health care technicians. The hospital operates 24 hours a day.

In addition, Central Regional Hospital is a psychiatry residency training site for both the University of North Carolina at Chapel Hill and Duke University. The Hospital provides training rotations for medical students, nurses, social workers, psychologists, chaplains, physical therapists, occupational therapists, recreation therapists and a variety of other disciplines.

## AUDIT SCOPE AND OBJECTIVES

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The general objective of this financial related audit was to identify improvements needed in internal control over selected fiscal matters. Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Errors or fraud may nevertheless occur and not be detected because of the inherent limitations of internal control. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or that compliance with policies and procedures may deteriorate. Our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

Our audit scope covered the period July 1, 2012, through January 31, 2013. During our audit, we considered internal control related to the following accounts and objectives:

*Drugs/Pharmaceutical Supplies* - This classification includes the expenditures for pharmaceutical supplies and the value of inventory on hand. We examined internal controls designed to ensure medications were inventoried and properly accounted for in the pharmacy. At June 30, 2012, inventory records indicated that pharmacy inventory was valued at \$432,656. For the period July 1, 2012, through January 31, 2013, the hospital had expended \$1,868,085 for additional supplies.

*Purchased Service Contracts - Medical/Rehabilitation Services* - This classification includes contract payments for medical and rehabilitation services, specifically, resident psychiatric care. We examined internal controls to determine that the hospital ensured contract payments were for actual services provided per the terms of the contracts. For the period July 1, 2012, through January 31, 2013, the Hospital had paid a total of \$1,118,888 for resident psychiatric care.

*Personal Services* – This classification includes salaries and wages paid to the Hospital's employees. We examined internal controls designed to ensure that the hours on the timesheets were computed accurately and that these hours were entered correctly in the payroll system for overtime, shift pay, and on-call. We also examined employee classifications to ensure that only appropriate positions earned overtime, shift, and on-call pay. For the period July 1, 2012, through January 31, 2013, the Hospital paid a total of \$52,675,779 in salaries, wages and related overtime, shift premium, and call-back pay.

## METHODOLOGY

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To accomplish our audit objectives, we gained an understanding of internal control over matters described in the *Audit Scope and Objectives* section of this report and evaluated the design of the internal control. We then performed further audit procedures consisting of tests of control effectiveness and/or substantive procedures that provide evidence about our audit objectives. Specifically, we interviewed personnel, observed operations, reviewed policies, analyzed accounting records, and examined documentation supporting recorded transactions and balances, as considered necessary in the circumstances. Whenever sampling was used, we applied a nonstatistical approach but chose sample sizes comparable to those that would have been determined statistically. As a result, we were able to project our results to the population but not quantify the sampling risk.

As a basis for evaluating internal control, we applied the internal control guidance contained in professional auditing standards. As discussed in the standards, internal control consists of five interrelated components: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

We conducted this audit in accordance with generally accepted government auditing standards applicable to performance audits. 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.

## RESULTS AND CONCLUSIONS

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The results of our audit disclosed deficiencies in internal control that are considered reportable under generally accepted government auditing standards. These items are described in the *Audit Findings and Responses* section of this report. Management's responses are presented after each audit finding. We did not audit the responses, and accordingly, we express no opinion on them.



## AUDIT FINDINGS AND RESPONSES

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### 1. CONTROLS OVER PHARMACY INVENTORY NEEDS IMPROVEMENT

The Hospital lacks adequate controls over the pharmacy inventory process for non-controlled substances<sup>1</sup>. Inadequate controls over inventory increases the risk of misappropriation and may prevent timely detection of thefts and losses. At June 30, 2012, inventory records indicated that the total pharmacy inventory was valued at \$432,656. An annual inventory was performed for some pharmaceutical storage areas at June 30, 2012; however, there was no evidence that a physical count had been performed for the dispensing carousel located within the pharmacy. Inventory records at June 30, 2012 indicated that the value of the carousel inventory was \$196,663.

The Hospital's procedures require a quarterly inspection of the non-controlled substances housed in the carousel to identify expired medications. During our audit, we observed a quarterly physical count performed by a pharmacy technician and noted that two of the three medications counted did not agree to the pharmacy inventory system quantity-on-hand. For example, the perpetual records indicated a total of 100 pills on-hand and the technician's physical count indicated 80 on-hand. The pharmacy technician made adjustments to the quantities-on-hand in the pharmacy inventory system without authorization or documentation to support why the adjustment was made.

There was no evidence provided to identify the number of adjustments made during our audit period (July 1, 2012 – January 31, 2013), the reasons for the adjustments, or who made the adjustments. The Hospital informed us that the pharmacy inventory system does not generate reports of adjustments to the quantities-on-hand.

Good internal controls require inventories to be made by employees independent of the section being inventoried and perpetual records should reflect actual quantities on hand.

*Recommendation:* The Hospital should review its policies and procedures to ensure that it includes periodic physical inventory counts of all pharmaceutical storage areas. Physical inventory counts should be compared to the quantities-on-hand in the inventory system and evidenced by personnel sign-offs and dates. Any differences noted should be documented and investigated.

The Hospital should establish policies and procedures regarding adjustments to the pharmacy inventory system. The Hospital should consider the number of individuals allowed to adjust inventory records, maintain documented evidence that an adjustment was made and investigated, and require that all adjustments are properly reviewed and approved by the pharmacy supervisor and/or director.

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<sup>1</sup> "Non-controlled" pharmaceutical drugs are drugs that are not regulated by the Drug Enforcement Administration (DEA). The pharmacy is required to limit access to and maintain records for "controlled" drugs in accordance with federal and state laws. This finding addresses only non-controlled drugs.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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*Agency Response:* The Department agrees with the audit finding and recommendations. The auditors' test of the carousel inventory count disclosed a discrepancy between a sample of actual pill counts in the Carousel trays and the quantity indicated by the Carousel's electronic system inventory. The Department determined that discrepancies occurred when the actual quantity transferred was not updated in the Carousel electronic system resulting in the carousel count being overstated.

A plan of corrective action was established and communicated to the auditors while on site. As of February 26, 2013, the Department completed an inventory of all medications within the Carousel. Adjustments were made as necessary and analyzed for accuracy and completeness. Changes were made, and will be documented, to enhance control in the storage of the medications within the Carousel to prevent future miscounts. The Department will continue to perform periodic inventory counts of storage areas as well as an annual inventory.

### 2. CONTRACTED HOURS NOT VERIFIED

Contract management procedures were not adequate to ensure that resident physicians were present at the Hospital for the hours in which the university medical schools were reimbursed. As a result there is an increased risk that the Hospital paid for services not received.

The Hospital has contracts with two university medical schools to provide resident psychiatric services to the Hospital's patients. The services to be provided by three contracts during our audit period are described below.

- One contract required the university provide the Hospital's patients 14,040 hours of psychiatric physician care at a cost of \$52.76 per hour payable in monthly installments. For the audit period, the accounting records indicate that the Hospital paid the university \$432,163.
- One contract required the university provide specific child and adolescent psychiatric services for 4,160 hours of psychiatric physician care at a cost of approximately \$69.69 per hour payable in monthly installments. For the audit period, the accounting records indicate that the Hospital paid the university \$169,132.
- One contract required the university provide 200+ patients, 15,600 hours of psychiatric physician care at a cost of \$49.77 per hour. For the audit period, the accounting records indicate that the Hospital paid the university \$517,593.

Although there were prepared work schedules for the resident psychiatrists, the Hospital did not verify that the physicians actually provided the numbers of hours in the contract. The contracted physicians did not have to complete time sheets or sign-in to indicate that they were at the Hospital.

## AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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Contract payments should be supported by daily activity report documentation (i.e., time sheets or other means) to support dates and times worked, and to evidence the number of hours services are rendered for comparison to current contract hours and to support the basis for future contract amounts.

*Recommendation:* The Hospital should establish policies and procedures for resident psychiatrists to record their hours of service, including arrival time, departure time, and total hours worked. The time records should be reviewed and approved by the attending physician responsible for supervising the resident. Actual hours worked should be compared to contract hours to ensure payments to the university are for actual hours of resident psychiatrists services rendered to the Hospital.

*Agency Response:* The Department agrees with the finding and recommendations. The Department agrees that having an internal timekeeping system in place would provide a valuable verification of the actual hours provided under the contract. The Department implemented a timekeeping system for the trainees while the auditors were still conducting fieldwork at Central Regional Hospital (CRH). Trainees working under contract now complete a time sheet similar to that used by all hospital employees. The time sheets are approved by the supervising physician and are turned in to the Chief Medical Officer's custody weekly. The hours worked are tallied on a monthly basis and compared to the monthly interval work expected under the contracts. If there is a shortfall in the hours of work provided, CRH will work with the contractor to give them the opportunity to make up the shortfall. If the contractor is unable to correct the deficiency in a timely manner, the progress payments on the contract will be adjusted to offset the deficit. The metrics developed for this monitoring will become one of the key quality monitors for the contract and will be used to determine the terms for annual renegotiation.

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## ORDERING INFORMATION

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This audit required 546 audit hours at an approximate cost of \$39,312.