

JOINT COMMITTEE ON GOVERNMENT AND FINANCE  
WEST VIRGINIA OFFICE OF THE LEGISLATIVE AUDITOR

# POST AUDIT DIVISION

LEGISLATIVE AUDIT REPORT

## Department of Health & Human Resources - State-Owned Hospital Purchasing

Legislative Auditor: Aaron Allred  
Post Audit Division Director: Justin Robinson



GENERALLY ACCEPTED GOVERNMENT  
AUDITING STANDARDS STATEMENT

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (**GAGAS**). 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.

POST AUDIT DIVISION  
Justin Robinson, Director

# POST AUDIT DIVISION

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## DEPARTMENT OF HEALTH & HUMAN RESOURCES: STATE- OWNED HOSPITAL PURCHASING

January 29, 2021

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*Since The Legislature Exempted State-Owned Hospitals From The State's Purchasing Requirements In 2017, The Department of Health & Human Resources Has Implemented New Purchasing Policies and Procedures That Borrow Heavily From The State's Purchasing Manual. However, Significant Weaknesses Exist That Should Be Addressed, And There Has Been No Decrease In Overall Spending By The Hospitals.*

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## EXECUTIVE SUMMARY

The Legislative Auditor conducted this audit on the seven state-owned hospitals operated by the Department of Health and Human Resources as required by W. Va. Code §5A-3-3B. The objective of this review was to determine the effects of the Legislative purchasing exemption granted to DHHR for the state-owned hospitals, including any substantive differences between DHHR's purchasing policies and the Purchasing Division's requirements, any realized cost-savings, and any other efficiencies resulting from the exemption.

### Frequently Used Acronyms in This Report

DHHR: Department of Health and Human Resources

JMHCC: John Manchin, Sr. Health Care Center

MMB: Mildred Mitchell-Bateman

RFQ: Request for Quotation

### Report Highlights

#### **Issue 1: Since the Legislature Exempted State-Owned Hospitals from the State's Purchasing Requirements in 2017, The Department of Health and Human Resources Has Implemented New Purchasing Policies and Procedures That Borrow Heavily from the State's Purchasing Manual. However, Significant Weaknesses Exist That Should be Addressed, and There Has Been No Decrease in Overall Spending by the Hospitals.**

- DHHR has established and implemented new purchasing policies and procedures which borrow heavily from the Purchasing Division's Purchasing Handbook (best practices). In addition, DHHR has engaged in routine monitoring of hospitals' transactions to measure compliance with its policies.
- While DHHR's policies incorporate many best practices from the Purchasing Handbook, the Legislative Auditor determined that DHHR's policy contains no provisions regarding receiving and inventory policies for purchases made by the hospitals. These omissions represent significant weaknesses in internal controls over purchasing and asset management, and taken together, increase the risk of fraud.
- Since obtaining the purchasing exemption, total non-payroll expenditures for the state-owned hospitals does not suggest any overall cost-savings or a decrease in spending on contractual services. While DHHR has provided documentation of cost-savings with certain vendors, overall non-payroll expenditures have increased both overall and with

most of the individual hospitals. These increases are likely the direct results of increased expenditures for contract nurses due to the State's shortage of nurses.

## Recommendations

1. The Legislative Auditor recommends that DHHR continue to monitor purchases on a routine basis and strive to increase compliance with its purchasing policies.
2. The Legislative Auditor recommends that DHHR modify its existing purchasing policies and procedures to include appropriate procedures for receiving and inventorying purchases made at the state-owned hospitals.
3. The Legislative Auditor recommends DHHR modify its purchasing policies to incorporate additional best practices such as requiring Certificates of Liability Insurance and bonds, when appropriate.
4. The Legislative Auditor recommends that DHHR promulgate a procedural rule outlining its purchasing policies and procedures in compliance with W.Va. Code §5A-1-12. Until compliance is achieved, DHHR and the state-owned hospitals should comply with the requirements of the Purchasing Handbook.

## Post Audit's Response to the Agency's Written Response

The Legislative Auditor transmitted a draft copy of the report to DHHR on October 26, 2020. At an exit conference held on November 9, 2020, DHHR expressed its concerns regarding the level of detail and amount of data included in the draft report on contract nursing expenditures. Subsequently, the audit team worked with DHHR to corroborate data related to spending on contract nursing vendors from FY 2016-2020 for inclusion in the report. On December 16, 2020, the Legislative Auditor transmitted a second draft for DHHR's review.

On January 22, 2021, DHHR provided its written response to the report (see Appendix B). In its response, DHHR concurs with the recommendations made by the Legislative Auditor. With respect to the weakness identified in the inventory process for the hospitals, DHHR indicates that it has identified the underlying causes for those issues and has implemented corrective actions, including statewide enhanced training sessions for the appropriate personnel.

With respect to the audit's discussion of the effects of the purchasing exemption, including cost-savings, DHHR's response provides a substantive amount of important testimony regarding the "soft cost" savings realized by the hospitals as a result of the purchasing exemption. In part, DHHR indicates, "*While overall spending and realized cost savings are indicators of effectiveness, the exemption's concurrent value and utility is reflected in a substantial reduction in administrative burdens to redress or avoid significant life and safety issues for fragile and vulnerable patients.*"

Finally, DHHR's response concurs with the Legislative Auditor's conclusion that the costs associated with contract nursing vendors is the primary driver of overall hospital spending.

Throughout its response, DHHR also concurs with, and even provides supplemental evidence of instances of reduced cost, similar to those documented in Figure 3 of the report. However, DHHR believes that caution should be used when assessing any general increase in overall expenditures.

Moreover, DHHR provides calculations in its response, using data from Figures 4 and 7 of the audit report, to represent a decrease in costs since FY 2017 in excess of \$9 million. However, the Legislative Auditor notes that to derive this purported cost savings, DHHR indicates, “*Specifically, the removal of [spending for contract nurses] establishes that the facilities have shown a significant decrease in the remaining items.*” The Legislative Auditor does not dispute these calculations but would instead point out that the exclusion of contract nursing costs means excluding a significant portion of all non-payroll expenditures, **in some cases more than half of all such expenditures**, for the hospitals between FY 2016-2020.





# **Issue 1: Since the Legislature Exempted State-Owned Hospitals from the State’s Purchasing Requirements in 2017, The Department of Health and Human Resources Has Implemented New Purchasing Policies and Procedures That Borrow Heavily from the State’s Purchasing Manual. However, Significant Weaknesses Exist That Should be Addressed, and There Has Been No Decrease in Overall Spending by the Hospitals.**

## **Introduction**

During the 2017 Regular Session, the Legislature passed Senate Bill 686, which exempted the seven state-owned hospitals from the provisions of W.Va. Code §5A-3, also known as the Purchasing Article. In effect, the exemption granted under Senate Bill 686 exempted the seven hospitals (See Appendix D) from the purchasing policies and procedures required under the Purchasing Division’s Purchasing Handbook.

In addition to granting a purchasing exemption, the Legislature also included a requirement for a follow-up audit to be conducted. W.Va. Code §5A-3-3B states:

*Provided, That on or before July 1, 2020, the Legislative Auditor shall audit the purchasing procedures of the facilities described in this section and report the results to the Joint Committee on Government and Finance on the effects of exempting said facilities from the provisions of this article, including, but not limited to, any realized cost savings and changes in purchasing policies resulting from such exemption.*

The Legislative Auditor reviewed the Department of Health and Human Resources’ (DHHR) current purchasing policies and analyzed hospital expenditure data from fiscal year 2016 through fiscal year 2020—two years immediately prior and after the effective date of the exemption granted to the state-owned hospitals. The results of this review identified the following:

- DHHR has established and implemented new purchasing policies and procedures which borrow heavily from the Purchasing Division’s Purchasing Handbook (best practices). In addition, DHHR has engaged in routine monitoring of hospitals’ transactions to measure compliance with its policies.
- While DHHR’s policies incorporate many best practices from the Purchasing Handbook, the Legislative Auditor determined that DHHR’s policy contains no provisions regarding receiving and inventory policies for purchases made by the hospitals. These omissions represent significant weaknesses in internal controls over purchasing and asset management, and taken together, increase the risk of fraud.
- Since obtaining the purchasing exemption, total non-payroll expenditures for the state-owned hospitals does not suggest any overall cost-savings or a decrease in spending on contractual services. While DHHR has provided documentation of cost-savings with

certain vendors, overall non-payroll expenditures have increased both overall and with most of the individual hospitals. These increases are likely the direct results of increased expenditures for contract nurses due to the State's shortage of nurses.

### **The Department of Health and Human Resources Established New Purchasing Procedures for the Hospitals, Based on the Purchasing Division's Best Practices.**

Since the purchasing exemption removed the requirement that the state-owned hospitals follow the state Purchasing Handbook, the Legislative Auditor sought to determine what purchasing policies DHHR put in place to govern spending by the hospitals. The Legislative Auditor requested that DHHR provide a copy of its current purchasing policies and procedures for the hospitals, enacted since they were granted the purchasing exemption and was provided with its *Exempt Goods and Services Contracts Purchasing Methodology and Manual*, established in June of 2017.

The Legislative Auditor's review of DHHR's purchasing policies identifies that there are substantial similarities between it and the Purchasing Handbook. Many of the provisions and language in DHHR's purchasing policy are copied verbatim from the provisions of the Purchasing Handbook. Both sets of policies contain specific sets of requirements including, but not limited to:

- competitive bidding at certain dollar thresholds;
- design and approval of solicitations for bids;
- contract management;
- bid evaluation and awards; and
- documentation requirements to support purchases.

Despite the broad similarities, the Legislative Auditor notes that there are some differences between the Purchasing Handbook and DHHR's exempt purchases policies. Many of these differences relate to dollar thresholds that trigger certain requirements.

The Legislative Auditor identified significant differences in the dollar thresholds that require verbal or written bids prior to making a purchase. Under the Purchasing Handbook, spending units are authorized to make purchases of \$2,500 or less without obtaining verbal or written bids. By contrast, DHHR's policy allows the state-owned hospitals to make purchases up to \$5,000 without obtaining any bids. Further, spending units subject to the Purchasing Handbook are required to obtain three written bids for any purchase or contract over \$10,000. Under DHHR's purchasing policies, the state-owned hospitals are not required to obtain written bids unless the purchase is expected to exceed \$25,000. The figure below provides a break down.

**Figure 1**  
**Verbal and Written Bid Requirements**  
**Purchasing Handbook Compared to DHHR**

<b>Requirement</b>	<b>Purchasing Handbook</b>	<b>DHHR Purchasing Policy</b>
No Bids Required	\$2,500 or less	\$5,000 or less
Three Verbal Bids	\$2,500.01 - \$10,000	\$5,000.01 - \$25,000
Three Written Bids	\$10,000.01 or more	\$25,000 or more

*Source: Provisions contained in DHHR's Exempt Goods and Services Contracts Policy Manual and the Purchasing Division's Purchasing Handbook.*

In addition to bidding thresholds, DHHR’s purchasing policies for the hospitals also contains lower dollar thresholds for other requirements as well. Under the requirements of the Purchasing Division’s Purchasing Handbook, spending units must advertise in wvOASIS any solicitation for a goods and services contract totaling more than \$10,000. Under DHHR’s purchasing policies for the state-owned hospitals, this advertising requirement only applies to contracts valued at more than \$25,000. Similarly, the Purchasing Handbook requires spending units seeking to use a sole source contract totaling more than \$2,500 to advertise the procurement in wvOASIS for ten days to afford alternate vendors an opportunity to “*express a reasonable interest.*” Under DHHR’s policy, this dollar threshold is ten times higher at \$25,000 before the sole source procurement is required to be posted in wvOASIS. Moreover, DHHR’s policy does not stipulate how long this advertisement must be posted.

Finally, the state-owned hospitals are required under DHHR’s policies to obtain a signed purchasing affidavit for any contract with a total value in excess of \$5,000. By contrast, the Purchasing Handbook requires state spending units to attach a signed purchasing affidavit to any contract corresponding to written RFQ issued by the spending unit.

**Since Obtaining a Purchasing Exemption for the Hospitals, DHHR Has Engaged in Routine Monitoring of Hospital Purchases for Compliance With Its Internal Purchasing Policies.**

DHHR informed the Legislative Auditor that it engages in routine auditing or monitoring of its contractual purchases. Shortly after receiving the purchasing exemption, DHHR instituted a routine monitoring process whereby a random sample of purchases from each hospital was selected for review. After selecting the purchases for its sample, DHHR evaluated the purchasing file for each purchase to gauge compliance with its new purchasing policies and procedures.

The Legislative Auditor obtained and analyzed data related to these audits conducted by DHHR. Between August 2017 and January 2020, DHHR conducted 14 different audits comprising 480 different purchases made by the hospitals. In sum, these audits looked at approximately \$21 million in purchases made by hospitals after the effective date of the purchasing exemption.

The results of DHHR’s audits consistently identified issues related to missing documentation in the purchasing file for purchases made by the hospitals. Specifically, 171 purchases reviewed by DHHR did not contain a signed purchase order in the purchasing file, or approximately 36 percent of all purchases reviewed. Other identified issues included missing bid documentation, purchasing affidavits, certification of non-conflict, among others.

The Legislative Auditor sought to corroborate the results of DHHR's internal audits and ensure that their results and conclusions were reliable. Therefore, the Legislative Auditor reviewed a limited random sample of 23 hospital purchases (over \$25,000)<sup>1</sup> for compliance with DHHR's purchasing policies and best practices. The results of this analysis identified similar results as DHHR's audits with missing purchasing documentation. In total, 7 of the 23 purchases sampled were found to have one or more missing pieces of documentation. However, DHHR notes that two of these purchases were contracts initiated by the Purchasing Division prior to the exemption, and one purchase is through statewide contract. The most frequent issue identified was the absence of purchasing affidavits for five contract purchases.

Routine monitoring by a spending unit is a foundational component of an effective system of internal controls, as defined by the COSO model. According to the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government*,

*Internal control monitoring assesses the quality of performance over time and promptly resolves the findings of audits and other reviews. . . Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.*

The Legislative Auditor, therefore, applauds DHHR for its efforts in routinely reviewing purchases against its purchasing policies. However, as the results of DHHR's audits and the Legislative Auditor's reviewed purchases indicates, issues with missing documentation persist. For a system of internal controls to be effective, management must not only engage in monitoring activities, but it must also remediate identified issues in a timely fashion. **Therefore, the Legislative Auditor recommends that DHHR continue to monitor purchases on a routine basis and strive to increase compliance with its purchasing policies.**

### **While the Hospitals' Purchasing Policies Are Based on and Incorporate Many Best Practices, the Omission of Certain Provisions Creates Significant Weaknesses in Internal Controls.**

The Legislative Auditor's review of DHHR's *Exempt Goods and Services Contract Purchasing Methodology and Manual* identifies that the purchasing policies for the state-owned hospitals do not contain specific provisions regarding receiving.

According to the Purchasing Division's Purchasing Handbook, spending units must fill out a receiving report to document the receiving process for both commodities and services upon receipt. Proper receiving procedures require a spending unit to open and inspect commodities purchased upon receipt of those items. The purpose of this inspection is to verify that the items received meet the specifications listed on the purchase order, such as the appropriate make, model number, brand name, and quantity ordered. In addition, proper receiving procedures also allow the spending unit to verify that items received were not damaged or otherwise defective.

When the purchase relates to services rendered instead of commodities, the Purchasing Handbook stipulates specific requirements that must be met as part of the receiving process, including verifying that labor services match the frequency described in the purchase order or

<sup>1</sup> The \$25,000 threshold was chosen to ensure that all purchases sampled would trigger the most stringent requirements in DHHR's new purchasing policies.

contract, any required consultant or audit reports are provided timely and to form, and ensuring that all tasks included in the purchase order or contract have been completed.

In addition, DHHR’s purchasing policies for the hospitals do not contain specific provisions regarding asset inventory requirements for purchases made by the hospitals. For spending units subject to the requirements of the State’s Purchasing Article, the Department of Administration’s Surplus Property Operations Manual establishes agencies’ responsibilities in maintaining fixed asset inventories:

**2.2 Agency Responsibilities:** *Agencies are responsible for all assets under their jurisdiction, regardless of their state (removeable or fixed), origin or acquisition cost. Agencies are responsible for maintaining assets from date of purchase to date of retirement, such as keeping equipment secure, entering assets into the Fixed Asset System, conducting physical inventories, submitting annual certification, retiring assets properly, etc. in accordance with procedures as outlined in this handbook.*

With respect to reportable assets, the Surplus Property Operations Manual establishes thresholds that define which assets must be reported into the wvOASIS Fixed Asset System:

1. All assets with an acquisition cost of \$1,000 or more and a useful life of one year or more;
2. all laptops and CPUs costing \$500 or more; and
3. all firearms, regardless of cost

Although DHHR’s current policy manual does not speak to inventory management, DHHR indicated to the Legislative Auditor that it adheres to the same inventory requirements and reportable asset dollar thresholds established by the Surplus Property Operations Manual. Therefore, the Legislative Auditor conducted a limited inventory review to measure the hospitals’ compliance with the inventory requirements required by DHHR.

The Legislative Auditor reviewed a limited, judgmentally selected sample of 20 asset purchases made across the seven state-owned hospitals in fiscal years 2019 and 2020—two years after the purchasing exemption. The total acquisition cost for these assets totaled approximately \$415,000. Each purchase was traced to the asset inventory record for the hospital that made the purchase to determine if purchases were properly recorded as required. Figure 2 below breaks down the results of this inventory review.

Figure 2 Limited Inventory Review of State-Owned Hospitals FY 2019-2020		
	Number of Assets	Aggregated Acquisition Cost
Assets Listed in Inventory	11	\$176,380.23
Assets Not Listed in Inventory	9	\$238,872.93
<b>Total</b>	<b>20</b>	<b>\$415,253.16</b>
Source: Legislative Auditor’s review of hospital purchases and inventory records in wvOASIS.		

The results of this review identify that **nearly half of the assets included in the Legislative Auditor’s limited sample were not properly reflected in the fixed asset inventory**

**of the appropriate state-owned hospital.** In sum, nearly \$240,000 in state-owned assets are not properly accounted for. It is the opinion of the Legislative Auditor that the results of this limited analysis indicate a significant weakness in DHHR's internal controls over its fixed assets. Therefore, the Legislative Auditor intends to conduct a full review of the DHHR's inventory management for assets purchased and maintained by the state-owned hospitals, the results of which will be presented to the Post Audits Subcommittee at a future date.

It is the opinion of the Legislative Auditor that these policy omissions constitute a significant weakness in DHHR's internal controls over purchasing at the state-owned hospitals. According to the Association of Certified Fraud Examiners, asset misappropriation is the most common type of fraud that occurs, and theft of non-cash assets ranked among the most common and costliest misappropriation schemes. Additionally, internal control weaknesses were responsible for half of all frauds, regardless of type. To properly safeguard such high-risk assets, special consideration when developing internal control policies and procedures is generally required.

Moreover, the risk of asset misappropriation, theft, or loss is heightened even further by the lack of receiving policies for the hospitals. Proper receiving procedures work in concert with appropriate inventory and asset management controls to create the necessary documentation whereby a spending unit can ensure that it has received all items purchased, ensure that they are in the quantity and quality desired, and ensure that assets are not misappropriated or stolen. **Therefore, the Legislative Auditor recommends that DHHR modify its existing purchasing policies and procedures to include appropriate procedures for receiving and inventorying purchases made at the state-owned hospitals.**

In addition, the Legislative Auditor notes that the DHHR's purchasing policies for the state-owned hospitals do not include other best practices included in the Purchasing Division's requirements, such as Certificate of Liability Insurance from all bidders, or bonds (bid bonds, performance bonds, etc.), when applicable. Requirements related to insurance or bonds are best practices that provide additional protections to the State. Moreover, while these provisions are not currently required by DHHR, the Legislative Auditor notes that they are included in some of the sampled hospital purchases already. Therefore, the Legislative Auditor recommends DHHR modify its purchasing policies to incorporate additional best practices such as requiring Certificates of Liability Insurance and bonds, when appropriate.

### **DHHR Needs to Adopt a Procedural Rule Reflecting the Provisions of Its Purchasing Policies and Procedures in Compliance with W.Va. Code §5A-1-12.**

During the 2020 Regular Session, the Legislature passed House Bill 4042 which established additional requirements for all spending units exempt from the Purchasing Division requirements or that will obtain an exemption from those requirements in the future. Specifically, W.Va. Code §5A-1-12 requires:

*(a) An agency that has been exempted from some or all of the requirements of this chapter, by either a provision of this chapter or in another provision of this code, shall adopt procedural rules, under §29A-3-1 et seq. or §29A-3A-1 et seq. of this code, establishing its purchasing procedures.*

*(b) For agencies that have been exempted prior to the effective date of this section, the written procedures shall be filed no later than September 1, 2020.*

*After September 1, 2020, any agency which has not filed its procedural rule as required by this section shall follow the procurement requirements established by the Purchasing Division.*

*(c) For agencies that are exempted after the effective date of this section, the written procedures shall be filed before the exemption may take effect.*

The Legislative Auditor was unable to identify any rules promulgated by DHHR pursuant to this statutory mandate. Therefore, the Legislative Auditor concludes that DHHR has not yet complied with the provisions of W.Va. Code §5A-1-12, as established by H.B. 4042. Per the provisions of the new law, DHHR and the state-owned hospitals are required to adhere to the provisions of the Purchasing Handbook for all purchases until such time as a procedural rule is put into place. **Therefore, the Legislative Auditor recommends that DHHR promulgate a procedural rule outlining its purchasing policies and procedures in compliance with W.Va. Code §5A-1-12. Until compliance is achieved, DHHR and the state-owned hospitals should comply with the requirements of the Purchasing Handbook.**

### **The Department of Health and Human Resources Provided Data Showing Transactional Level Cost Savings on Some Purchases for Each Hospital Since the Exemption.**

Pursuant to the mandate in W.Va. Code §5A-3-3B, the Legislative Auditor sought to determine whether the purchasing exemption granted by the Legislature has effectuated lower overall spending or realized cost savings to the state-owned hospitals.

The Legislative Auditor asked DHHR whether it could provide any quantified, realized cost-savings since the effective date of the state hospitals’ purchasing exemption. In response, DHHR provided spreadsheets showing cost-savings for purchases made between 2018 and 2020. Primarily, DHHR’s data shows cost-savings realized by the hospitals by purchasing items from non-contract vendors rather than the contract vendors previously used (Fastenal, Grainger, McKesson, etc.)<sup>2</sup>. Figure 3 below provides a breakdown of the DHHR-provided data.

<b>Figure 3 Cost Savings Realized by State-Owned Hospitals, Per DHHR</b>		
<b>Hospital</b>	<b>Savings</b>	<b>Number of Purchases</b>
John Manchin, Sr. Health Care Center	\$628.71	6
Welch Community Hospital	\$13,216.48	24
Lakin Hospital	\$16,088.78	23
Jackie Withrow Hospital	\$3,111.97	9
Mildred Mitchell-Bateman Hospital	\$69,104.24	14
Sharpe Hospital	\$87,820.48	38
Hopemont Hospital	\$603.28	6
<b>Total</b>	<b>\$190,573.94</b>	<b>120</b>
Source: Unaudited data provided by DHHR on March 17, 2020.		

<sup>2</sup> In addition, DHHR included some purchases made by the hospitals for items that would not have been available for purchase through the contract vendors.

In total, DHHR documented approximately \$190,000 of cost savings by the hospitals through 120 different transactions. Individual savings ranged from approximately \$600 at Hopemont Hospital and the John Manchin, Sr. Health Care Center, to nearly \$88,000 at Sharpe Hospital.

### The Purchasing Exemption Has Not Led to an Overall Decrease in the Hospitals’ Total Non-Payroll Expenditures.

While these examples of cost savings can be helpful in analyzing the effects of the purchasing exemption for the state-owned hospitals, the analysis is narrow in its scope. To get a broader view of hospital’s expenditures, the Legislative Auditor reviewed the total non-payroll hospital expenditure data for each of the seven state-owned hospitals from FY 2016 through FY 2020 to determine whether the purchasing exemption led to notable overall decreases in expenditures. In doing so, this review captures two full years of expenditure data from before and after the effective date of the purchasing exemption for comparison purposes. Figure 4 provides the total non-payroll expenditures for each of the hospitals, by fiscal year.

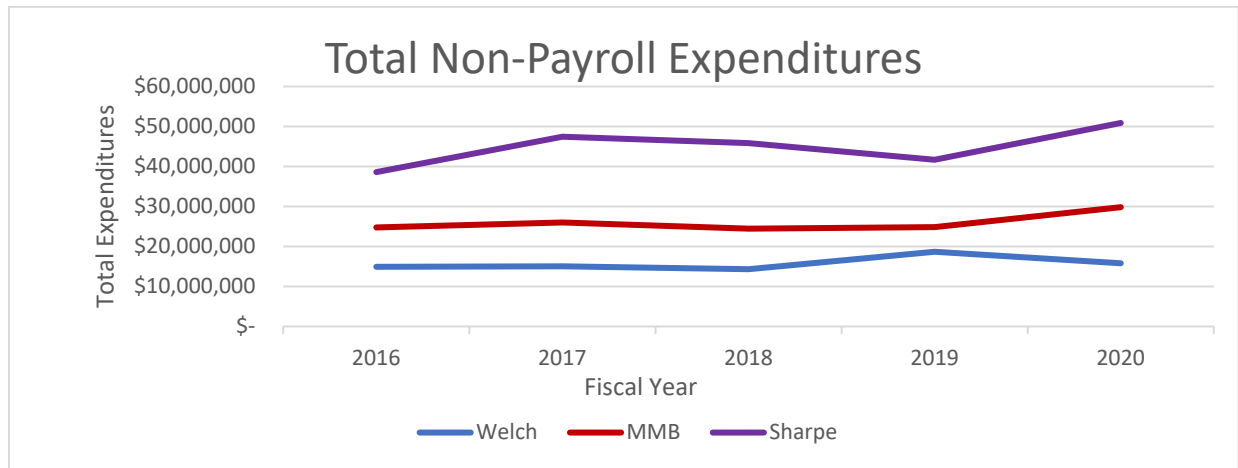
Figure 4 Total Non-Payroll Expenditures by Hospital FY 2016 – FY 2020							
	Hopemont	Lakin	JMHCC	Jackie Withrow	Welch	MMB	Sharpe
<b>2016</b>	\$4,535,668	\$1,715,878	\$1,844,104	\$3,058,373	\$14,937,642	\$24,772,800	\$38,594,210
<b>2017</b>	\$4,036,430	\$2,007,975	\$1,893,438	\$2,610,399	\$15,039,557	\$26,000,827	\$47,440,912
<b>2018</b>	\$4,029,138	\$2,532,492	\$1,478,688	\$2,902,737	\$14,317,766	\$24,455,174	\$45,836,956
<b>2019</b>	\$3,230,324	\$2,898,880	\$2,020,811	\$3,803,588	\$18,676,692	\$24,856,849	\$41,676,999
<b>2020</b>	\$4,345,943	\$4,581,076	\$2,983,095	\$4,876,101	\$15,779,096	\$29,824,241	\$50,883,916

Source: Expenditure data pulled from wvOASIS report WV-FIN-GL-065 and sorted by object codes to exclude expenditures for personal services. Analyses were conducted for each hospital for each of the five fiscal years covered in the scope of this audit and aggregated above.

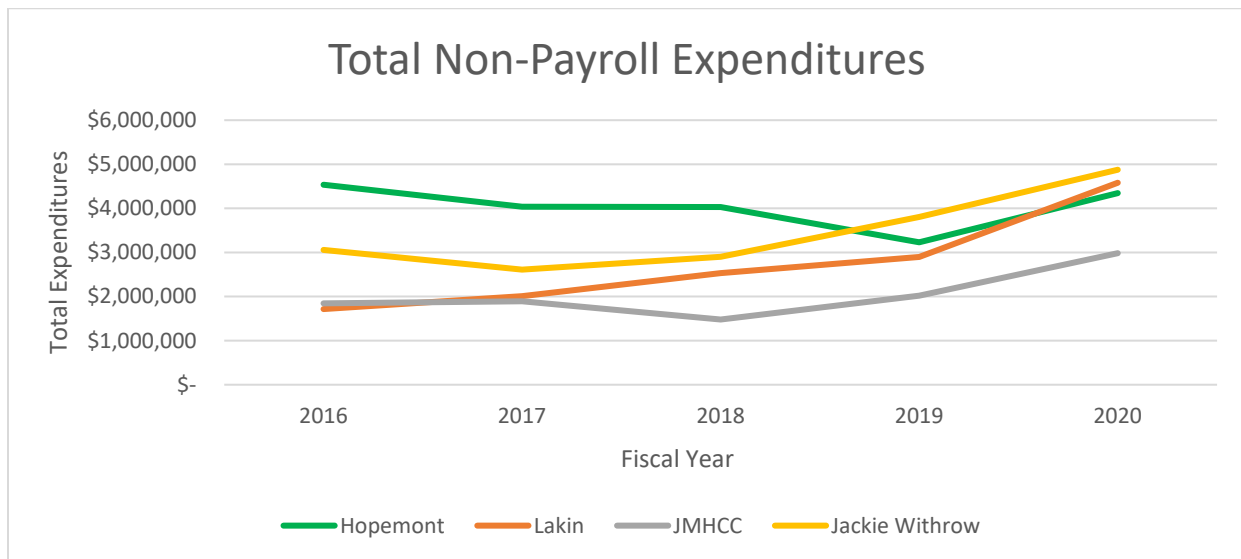
While only one hospital—Hopemont—saw an overall decrease in its total expenditures from FY 2016 to FY 2020, expenditures at each of the hospitals have fluctuated year-over-year. Only Lakin Hospital saw increases in total non-payroll expenditures in each year from 2016 to 2020. Total expenditures across all seven hospitals combined increased from \$89.5 million in 2016 to approximately \$113 million in 2020, an increase of nearly 27 percent. Figures 5 and 6 below explore these trends in total non-payroll expenditures in greater detail.



**Figure 5. Total Non-Payroll Expenditures for State-Owned Hospitals (1) – FY 2016-2020**



**Figure 6. Total Non-Payroll Expenditures for State-Owned Hospitals (2) – FY 2016-2020**



Source: Data from Figure 4 above was used by the Legislative Auditor to generate Figures 5 and 6.

In addition to analyzing trends in overall expenditures, the Legislative Auditor used data from wvOASIS to analyze changes in each of the hospitals’ expenditures on contractual services<sup>3</sup> from FY 2016 to FY 2020. For many of the state-owned hospitals, expenditures on contractual services can account for 50 percent or more of their total non-payroll expenses in a given year. Moreover, DHHR’s purchasing policy manual is specifically focused on purchases for contractual goods and services. Figure 7 provides a detailed breakdown of these expenditures for each hospital, by year.

<sup>3</sup> Analysis of contractual expenditures was derived by sorting all hospital expenditures by Object Code 3206—Contractual Services.

**Figure 7**  
**Total Expenditures for Contractual Services by Hospital**  
**FY 2016 – FY 2020**

	<b>Hopemont</b>	<b>Lakin</b>	<b>JMHCC</b>	<b>Jackie Withrow</b>	<b>Welch</b>	<b>MMB</b>	<b>Sharpe</b>
<b>2016</b>	\$2,620,001	\$256,817	\$790,528	\$329,581	\$447,870	\$5,125,548	\$8,074,432
<b>2017</b>	\$2,572,200	\$412,720	\$863,940	\$245,128	\$739,454	\$5,078,808	\$10,341,026
<b>2018</b>	\$1,992,646	\$1,182,161	\$602,181	\$838,042	\$1,418,089	\$5,935,234	\$9,252,656
<b>2019</b>	\$1,762,451	\$1,674,723	\$1,048,741	\$1,615,615	\$1,892,020	\$5,292,289	\$10,241,796
<b>2020</b>	\$3,168,253	\$3,326,540	\$1,974,781	\$2,515,239	\$3,675,840	\$10,142,531	\$18,839,089

Source: Data was pulled from wvOASIS WV-FIN-GL-065 and sorted for all expenditures categorized by object code 3206-contractual services. These analyses were conducted for each hospital for each fiscal year covered under the scope of this audit.

Each of the seven state-owned hospitals experienced a sharp increase in its total expenditures for contractual services from 2016 to 2020, and many experienced exponential growths in their spending for these services. Moreover, Figure 7 above demonstrates that for most hospitals, the growth in spending on contractual services occurred primarily after the purchasing exemption.

**The Increased Use of Contract Nursing Vendors by Each Hospital to Address Shortages in Nursing Staff is the Primary Cause of the Increase in Total Non-Payroll Expenditures from FY 2016-2020.**

DHHR indicated several possible contributors to these increased expenditures both overall and in contractual services. Bed count increases, such as the increase at Sharpe Hospital likely led to some increase in expenditures. Moreover, as the Legislative Auditor reported in December 2019<sup>4</sup>, the decertification of Sharpe Hospital in 2018 and the subsequent efforts to reobtain certification also contributed for Sharpe’s increased spending. Finally, DHHR indicates that,

*The entire period would be impacted by the national nurse shortage leading to an increase in our utilization of nursing contracts. Lack of staffing at times may lead to changes in the census at the facilities.*

The Legislative Auditor reviewed expenditures for contract nursing vendors at each of the hospitals from 2016 to 2020. The results of this analysis indicate that due to increased use of these contracts by the hospitals, resulting from shortages in nursing staff, has led to significant increases in each hospital’s spending on contract nurses. Figure 8 provides more detail.

<sup>4</sup> Report PE 19-05-627 released by the Performance Evaluation and Research Division on 12/16/2019.

<b>Figure 8</b>			
<b>Growth in Contract Nursing Expenditures at State-Owned Hospitals</b>			
<b>Fiscal Years 2016 -2020</b>			
<b>Hospital</b>	<b>2016 Nursing Total</b>	<b>2020 Nursing Total</b>	<b>Increase</b>
Hopemont	\$2,373,220	\$2,877,346	\$504,126
Jackie Withrow	\$0	\$2,136,890	\$2,136,890
JMHCC	\$657,339	\$1,844,950	\$1,187,611
Lakin	\$0	\$3,204,017	\$3,204,017
MMB	\$4,768,068	\$9,141,432	\$4,373,364
Sharpe	\$7,364,809	\$17,754,719	\$10,389,910
Welch	\$0	\$3,246,561	\$3,246,651
<b>Totals</b>	<b>\$15,163,436</b>	<b>\$40,205,915</b>	<b>\$25,042,479</b>

Source: Legislative Auditor's calculations, verified by DHHR, derived by sorting WV-FIN-GL-065 report from wvOASIS for all expenditures made by each hospital in each fiscal year from FY2016-2020 made for contract nurses.

Each hospital except for Hopemont saw its total expenditures for contract nursing vendors increase by millions of dollars, with the largest increase occurring at Sharpe Hospital, which had an increase in nursing contract expenditures of over \$10 million between 2016 and 2020. Overall, the seven hospitals combined had an increase of \$25 million more spend on contract nursing in FY 2020 than in 2016.

In addition, the Legislative Auditor analyzed nursing expenditures at each hospital relative to its total nonpayroll expenditures and analyzed how this ratio had changed from 2016 to 2020. Figure 9 below provides a breakdown.

<b>Figure 9</b>		
<b>Contract Nursing Payments as a Percent of Total Nonpayroll Expenditures</b>		
<b>FY 2016 – 2020</b>		
<b>Hospital</b>	<b>FY 2016 Nursing Payments as a % of Total Payments</b>	<b>FY 2020 Nursing Payments as a % of Total Payments</b>
Hopemont	52%	66%
Jackie Withrow	0%	44%
JMHCC	36%	62%
Lakin	0%	70%
MMB	19%	31%
Sharpe	19%	35%
Welch	0%	21%
<b>Total</b>	<b>17%</b>	<b>35%</b>

Source: Legislative Auditor's calculations derived by dividing the contract nurse expenditure data from Figure 8 by the total expenditures in Figure 4.

In FY 2016, only two of the seven state-owned hospital had nursing vendor expenditures that equaled more than one-third of all expenditures. By FY 2020, however, nursing vendor payments at five of the seven hospitals accounted for more than one-third of all nonpayroll expenses. Three hospitals (Hopemont, John Manchin, Lakin), experienced contract nursing payments that accounted for over 60 percent of all nonpayroll expenses in FY 2020. Overall, the combined payments to nursing vendors in FY 2016 accounted for 17 percent of all nonpayroll expenses at the hospitals. By FY 2020, this percentage had doubled such that 35 percent of all nonpayroll expenses at the seven hospitals were for contract nurses.

Based on this analysis, the Legislative Auditor concludes that the hospitals' increased reliance on contract nursing vendors to fill vacancies caused by a nursing shortage has been the primary cost-driver for the hospitals since at least FY 2016. In fact, the Legislative Auditor notes that the increases experienced by each hospital in contract nursing payments from FY 2016 to FY 2020 are roughly the same as the total increases in non-payroll spending for the hospitals. Moreover, it is unclear that a purchasing exemption alone could have the effect of decreasing or slowing down the growth of these costs.

## Conclusion

West Virginia Code requires the Legislative Auditor to examine and report upon the effects of the legislative purchasing exemption granted to the state-owned hospitals. With respect to the policies and procedures established by DHHR to replace the requirements of the Purchasing Handbook, The Legislative Auditor's review finds that DHHR has incorporated, verbatim, much of the previous requirements. Moreover, the Legislative Auditor has identified that DHHR engages in routine internal auditing or monitoring of hospital purchases for compliance with its new policies. DHHR's reliance on best practices (the Purchasing Handbook) and its engagement in routine monitoring comprise crucial elements of an effective system of internal controls over hospital purchasing.

However, the Legislative Auditor is concerned with the omission of specific receiving and inventorying procedures in DHHR's current purchasing policies. Both receiving and inventorying procedures are significant internal controls that protect the State. While this audit does not suggest any fraud having occurred, the absence of these two controls, particularly in tandem, creates a heightened risk of the most common type of fraud—asset misappropriation. Moreover, it is the opinion of the Legislative Auditor that this lack of policies is a significant contributor to the issues identified with the inventories of the respective state-owned hospitals. It is further the opinion of the Legislative Auditor that incorporation of these significant internal controls, along with other best practices indicated herein, will result in a stronger overall system of controls over hospital purchasing and provide additional protection to the State.

With respect to spending, the Legislative Auditor concludes that **the purchasing exemption granted to the state-owned hospitals has not had the effect of decreased overall spending.** While DHHR has tracked and provided specific examples of cost savings realized from a direct vendor-to-vendor comparison, the analyses of overall spending, from FY 2016 to FY 2020, both total non-payroll expenses and contractual services spending has steadily increased at nearly all seven hospitals. **Importantly, the Legislative Auditor notes that this is not to say that the purchasing exemption caused increased spending nor to suggest that the exemption has not had positive impacts for DHHR and the hospitals.** Indeed, DHHR indicates that each hospital has seen efficiency gains and “soft cost” savings in the time it takes to make transactions.

Moreover, because of the State's nursing shortage and DHHR's increased use of nursing vendor contracts as a result, the Legislative Auditor concludes that much of the increases in nonpayroll expenditures are driven by these payments. While a purchasing exemption may lead to cost savings in certain circumstances by giving agencies more vendor choice, it is unlikely that an exemption alone could either mitigate the State's nursing shortage or the associated costs of that shortage.

## **Recommendations**

1. The Legislative Auditor recommends that DHHR continue to monitor purchases on a routine basis and strive to increase compliance with its purchasing policies.
2. The Legislative Auditor recommends that DHHR modify its existing purchasing policies and procedures to include appropriate procedures for receiving and inventorying purchases made at the state-owned hospitals.
3. The Legislative Auditor recommends DHHR modify its purchasing policies to incorporate additional best practices such as requiring Certificates of Liability Insurance and bonds, when appropriate.
4. The Legislative Auditor recommends that DHHR promulgate a procedural rule outlining its purchasing policies and procedures in compliance with W.Va. Code §5A-1-12. Until compliance is achieved, DHHR and the state-owned hospitals should comply with the requirements of the Purchasing Handbook.



# WEST VIRGINIA LEGISLATIVE AUDITOR'S OFFICE

*Post Audit Division*

## Appendix A

**Justin Robinson**  
Director

1900 Kanawha Blvd. East, Room W-329  
Charleston, WV 25305-0610  
(304) 347-4880



October 26, 2020

Bill J. Crouch, Cabinet Secretary  
West Virginia Department of Health and Human Resources  
One Davis Square, Suite 100 East  
Charleston, WV 25301

Cabinet Secretary Crouch:

This letter is to transmit a draft copy of the Post Audit Division's report on the Department of Health and Human Resources' Purchasing Procedures for State-Owned Hospitals. As a result of COVID-19, at this time there are no scheduled interim meetings of the Post Audits Subcommittee where the report would typically be presented and released. Rather, the report is planned to be released to the members of the Subcommittee and the public through our website at a date not yet specified, after the DHHR's review and comment on the enclosed draft report. Once this date is determined, we will notify you. After the report is released, please be prepared to respond to inquires from members of the Post Audits Subcommittee regarding the report.

If you would like to schedule an exit conference to discuss the draft, please contact Adam R. Fridley, CGAP, Audit Manager, at 304-347-4880 or [adam.fridley@wvlegislature.gov](mailto:adam.fridley@wvlegislature.gov) at your earliest convenience to schedule this meeting prior to the release of the report. This meeting will be held virtually, and arrangements can be made to accommodate this meeting through an available application such as Microsoft Teams or Zoom. If you desire to provide a written response to this report, we will need your written comments no later than noon on Monday, November 2, 2020. Thank you for your cooperation and assistance.

Sincerely,

A handwritten signature in blue ink that reads "Justin Robinson".

Justin Robinson

Enclosure



## Appendix B

STATE OF WEST VIRGINIA  
DEPARTMENT OF HEALTH AND HUMAN RESOURCES

Bill J. Crouch  
Cabinet Secretary

January 22, 2021

Justin Robinson, Director  
Legislative Auditor's Office  
Post Audit Division  
1900 Kanawha Boulevard, East  
Building 1, Room W-329  
Charleston, WV 25305-0610

RE: Audit of the West Virginia Department of Health and Human Resources pursuant to W.  
Va. Code §5A-3-3b

Dear Mr. Robinson:

The West Virginia Department of Health and Human Resources (DHHR) offers the following responses to the draft report submitted for review to the Department of Health and Human Resources on December 16, 2020.

**Recommendation #1: “The Legislative Auditor recommends that DHHR continue to monitor purchases on a routine basis and strive to increase compliance with its purchasing policies.”**

The DHHR/OHF concurs with the Legislative Auditor’s recommendation that it should continue to monitor purchases on a routine basis to maintain compliance with purchasing policies. Any misplaced documents were identified and obtained by staff; however, the documents were not included into the wvOASIS purchasing file for the procurement. This inadvertent exclusion included several instances where the final signed contract was completed but not timely saved to the file. The failure to timely save the file stemmed from the approval process. When using a paper process, it is required that the Secretary sign and approve all documents. Thus, those documents must be printed, compiled, and submitted to the Secretary’s attention in Charleston. Following the Secretary’s approval, those documents are returned to OHF Central Office and emailed back to staff at the facilities for final processing.

While DHHR/OHF is exempt from many of the state’s purchasing policies and practices, DHHR/OHF is bound by the state’s wvOASIS financial system and its inherent checks and balances. Prior to the purchasing exemption, the DHHR/OHF relied heavily on the purchasing division of the West Virginia Department of Administration to provide for detailed training on a broad array purchasing topics. The training included the financial system and other purchasing



related processes. However, with the implementation of the purchasing exemption, DHHR/OHF staff became ineligible to attend the Department of Administration's in-person or active training sessions. In response, DHHR/OHF continues to develop and implement internal processes to provide appropriate information to our exempt purchasing staff.

**Recommendation #2: "The Legislative Auditor recommends that DHHR modify its existing purchasing policies and procedures to include appropriate procedures for receiving and inventorying purchases made at the state-owned hospitals."**

As stated in the draft audit report, the DHHR/OHF adheres to the same inventory requirements and reportable asset dollar thresholds established by the Surplus Property Operations Manual. When developing the DHHR *Exempt Goods and Services Contracts Purchasing Methodology and Manual*, it was believed that omission of receiving and inventorying procedures would eliminate confusion and the possibility of conflicting standards. However, based on the Legislative Auditor's recommendation, DHHR/OHF will revise the DHHR *Exempt Goods and Services Contracts Purchasing Methodology and Manual* to promote compliance with the standardized state procedures and the Surplus Property Operations Manual.

Additionally, with the implementation of wvOASIS in 2014, the previously used mechanical paper process for receiving reports was replaced with functionality known as the matching process or 3-way match (order, receipt, and invoice). Based on the commodity code chosen as required for commodity-based purchases when the document is created, a receiving document is required. The matching process requires a receiving document to be present and final in wvOASIS before it will allow the generation of a payment. This requirement forces compliance with the statute and mitigates the possibility of omission by staff. While the purchasing manual for DHHR facilities did not specifically address the receiving report, the receiving report functionality in wvOASIS mitigates non-compliance.

A similar process is required with the use of a P-Card. In the case of P-Card transactions, certain regulations govern the receiving process. The Code of State Rules (155 CSR 1) requires receiving reports for commodities purchased by a P-Card. Furthermore, cardholders are required to take P-Card training when provided a card. The training includes references to the receiving process when making purchases with a P-Card.

**Legislative Auditor's comment, draft report page #5: "The results of this review identify that nearly half of the assets included in the Legislative Auditor's limited sample were not properly reflected in the fixed asset inventory of the appropriate state-owned hospital. In sum, nearly \$240,000 in state-owned assets are not properly accounted for. It is the opinion of the Legislative Auditor that the results of this limited analysis indicate a significant weakness in DHHR's internal controls over its fixed assets."**

The DHH/OHF identified and implemented practices that address the identified weakness in the internal controls over the DHHR's fixed assets. In addition, the DHHR purchasing and asset sections will conduct statewide enhanced training sessions for all internal equipment coordinators, purchasing card coordinators, and procurement personnel in the DHHR to redress concerns identified in the draft report. The training will emphasize the importance of uploading complete documentation in wvOASIS for each purchase made via the ADO, purchase order, or P-Card process. The training will also stress that this must include asset documentation;

specifically, the completion and proper filing of a Fixed Asset Activity Form that is to be sent to the DHHR inventory coordinator for processing and entry into wvOASIS.

The implementation of wvOASIS, among other things, included the functionality that allows for system identification of fixed assets following the completed payment of an invoice referencing a reportable fixed asset item. As is the case with receiving reports, commodity codes are used to identify those items that meet certain value thresholds and other criteria to generate fixed asset shell documents (SHEL). Upon review of the Legislative Auditor's draft report, the DHHR/OHF has concluded that it inadvertently failed to identify some purchases made by the facilities during the review of SHEL documents in wvOASIS.

In wvOASIS, a commodity code must be chosen to complete any procurement document. That procurement document and commodity code is referenced throughout the life of the purchase resulting in the payment to the vendor. Upon successful completion of the payment, a batch process will generate the SHEL document for that purchase. That document is then finalized by the department to record the fixed asset in wvOASIS, and the SHEL document is forever tied to the procurement/payment through referencing functionality.

Although DHHR facilities received the purchase exemption, the requirement to use wvOASIS for payment processing of commodity-based purchases could not be waived. This wvOASIS functionality also forces compliance. Therefore, purchases/payments made referencing commodity codes identified as a reportable fixed asset were created and identifiable in wvOASIS as an asset or potential asset. Unfortunately, the process was not finalized because the reports were being run at the department level as opposed to the unit level.

DHHR/OHF's review reflects that DHHR had been regularly reviewing SHEL documents for the health side of the Department (Department code 0506) by retrieving only the documents for Department 0506 and Unit 0506. It was believed that this would include all asset purchases made by the facilities as well as all other units under Department 0506; however, the accounting structure for the facilities provides a specific unit code to each hospital, as follows:

- Dept. 0506; Unit 2841 = Hopemont Hospital
- Dept. 0506; Unit 2842 = Lakin Hospital
- Dept. 0506; Unit 2843 = John Manchin Sr. Health Care Center
- Dept. 0506; Unit 2844 = Jackie Withrow Hospital
- Dept. 0506; Unit 2845 = Welch Community Hospital
- Dept. 0506; Unit 2926 = William R. Sharpe Jr. Hospital
- Dept. 0506; Unit 2927 = Mildred Mitchell-Bateman Hospital
- Dept. 0506; Unit 3690 = Sharpe – Transition Living Facility (TLF)

Once this issue was identified, DHHR located all SHEL documents under each of the additional unit codes to ensure the proper documentation and addition of assets purchased by the hospitals. DHHR/OHF will continue this protocol to ensure appropriate and necessary internal tracking of state-owned assets.

**Recommendation #3: “The Legislative Auditor recommends DHHR modify its purchasing polices to incorporate additional best practices such as requiring Certificates of Liability Insurance and bonds, when appropriate.”**

The DHHR/OHF concurs with the Legislative Auditor’s recommendation, and DHHR/OHF will revise the DHHR *Exempt Goods and Services Contracts Purchasing Methodology and Manual* to adopt and implement additional best practices, if applicable. As stated previously, it was DHHR/OHF’s belief that omission of certain provisions and requirements allowed for their use and implementation but would not require an update to the DHHR *Exempt Goods and Services Contracts Purchasing Methodology and Manual* to mirror every change or update made to the state’s purchasing policies.

**Recommendation #4: “The Legislative Auditor recommends that DHHR promulgate a procedural rule outlining its purchasing policies and procedures in compliance with W.Va. Code §5A-1-12. Until compliance is achieved, DHHR and the state-owned hospitals should comply with the requirements of the Purchasing Handbook.”**

While the DHHR/OHF was tracking House Bill 4042 which was passed during the 2020 Regular Session, the submission period (effective date of 90 days from passage on May 7, 2020) occurred when the focus and resources of the Department were significantly shifted to the emergency COVID-19 response. This new focus on the COVID-19 response contributed to a delay in compliance with the deadline of September 1, 2020. Once the omission was identified during the Legislative Auditor’s review, DHHR began the process of promulgating the procedural rule. That rule became effective December 31, 2020.

**Legislative Auditors comment, draft report page #7: “Pursuant to the mandate in W.Va. Code §5A-3-3B, the Legislative Auditor sought to determine whether the purchasing exemption granted by the Legislature has effectuated lower overall spending or realized cost savings to the state-owned hospitals.”**

The intent of the purchasing exemption has proven effective since its implementation by producing realized cost savings at all facilities as well as eliminating lengthy delays in the purchasing of needed items. The intent of W. Va. Code §5A-3-3B was twofold: First, DHHR/OHF sought the purchasing exemption in order to obtain supplies and equipment at a price below state purchasing contracts in order to realize cost savings where possible. Second, the DHHR/OHF requested the exemption to bypass the various layers of bureaucracy in order to more timely purchase those supplies and equipment needed to best serve the patients of the various facilities.

Although the legislature did not limit the scope of the legislative audit, it is clear from the code that “any realized cost savings” at the facilities was critical to the enactment of the §5A-3-3B. As set forth in the table on page 7 of the draft report, each of the seven facilities benefited from the purchasing exemption with realized cost savings. In reviewing the data contained in the table, realized cost savings averaged from a low of \$100 per purchase at Hopemont Hospital with a high of \$4,936 per purchase at Mildred Mitchell-Bateman Hospital. The average realized cost savings for all seven facilities over 120 purchases was \$1,588 per purchase. The effective use of

the purchasing exemption saved the facilities and, in turn, the taxpayers significantly on the purchases for which it was used.

The second reason for the purchasing exemption was to eliminate the bureaucracy leading to delayed purchasing of items needed to then serve the patients of the facilities. While overall spending and realized cost savings are indicators of effectiveness, the exemption's concurrent value and utility is reflected in a substantial reduction in administrative burdens to redress or avoid significant life and safety issues for fragile and vulnerable patients. Importantly, the care of those fragile and vulnerable patients is governed by a complex tapestry of accreditation standards and certification rules. DHHR/OHF operate 24/7 direct care hospital facilities while the state's multilevel purchasing processes generally operate Monday through Friday from 8 a.m. to 5 p.m. The exemption gives DHHR/OHF the necessary flexibility to meet the life and safety needs of the patients and to ensure necessary regulatory compliance expeditiously.

For example, one instance showing a necessity for the exemption was the need to update kitchen equipment at Lakin Hospital in order to meet Centers for Medicare & Medicaid Services (CMS) standards for Long Term Care facilities. Work began on the initial procurement in August 2015 and continued until February 2016. Then, after declaring the work a construction project, the original procurement was rejected and had to be resubmitted and reprocessed. The documents were reprocessed in accordance with applicable procedures for purchasing, and the final "Emergency Purchase" Centralized Purchase Order was signed in July of 2016 some 11 months after the initial need was established by the facility. The current exemption allows the facilities to request, and the Secretary to timely approve, any vital needs without lengthy processing and reprocessing. Ultimately, the exemption greatly reduces the risk to the facilities and patients having emergency needs. In addition, the exemption allows DHHR/OHF to meet clinical needs in a challenging regulatory environment.

Furthermore, a multi-layered procurement review exists within OHF. Each facility has its own specific procurement staff and OHF has a centralized procurement officer who works with DHHR purchasing personnel to ensure that procurements are issued correctly. Previously, all procurement over \$25,000 would also be subject to Department of Administration Purchasing Division level review and approval. Thus, when questions or concerns were identified at the purchasing division level, those communications had to be sent back down the communication chain to be addressed. Then, the communications had to travel back up the chain to be reviewed and approved at higher levels. The exemption promotes a streamlined process and a corresponding savings in "soft costs" due to the reduction in administrative burden and elimination of delays inherent to a more bureaucratic process. Finally, the exemption provides necessary flexibility to ensure regulatory compliance by the health care facilities.

**Legislative Auditor's comment, draft report page #7: "The Purchasing Exemption Has Not Led to an Overall Decrease in the Hospitals' Total Non-Payroll Expenditures."**

The primary driver of non-payroll expenditures is the cost associated with procuring the necessary services of licensed and trained health care workers to staff DHHR/OHF's facilities in order to ensure compliance with applicable accreditation and certification standards. Quite simply, the demand for licensed health care workers exceeds available supply in West Virginia

and much of the United States. The lack of supply of licensed health care workers has contributed to a substantial increase in costs. Additionally, it spawned a national market of health care staffing agencies marketing licensed health care workers to the highest-paying health care facilities. Staffing challenges and pricing for health care services have been exacerbated by the recent COVID-19 pandemic that has promoted a competitive demand for contract staff at all facilities. The high demand and diminished supply led to an increase in the rates on the open market. Ultimately, the state-owned and operated health care facilities are currently experiencing the greatest demand for contract staff they have ever endured, and those costs cannot be eliminated by the purchasing exemption.

Further, DHHR/OHF's facilities have been the subject of unsubstantiated and confidential complaints to accreditation bodies regarding staffing at its state psychiatric facilities. A protection and advocacy system is designated under federal law to advocate for patients at the state's psychiatric facilities and nursing homes. *See* 29 U.S.C. § 794e; 42 U.S.C. § 15041 *et seq.*; and 42 U.S.C. § 10801 *et seq.* As such, contract staffing costs reflect a delicate balance of diminished nationwide supply of licensed health care workers, clinical needs of patients, and regulatory compliance.

Utilizing the expenditure data provided by the Legislative Auditors on the draft audit report pages 8 and 9, the data show a trend that the purchasing exemption has contributed to diminished expenditures outside of contractual services. Specifically, the removal of "Total Expenditures for Contractual Services by Hospital" from the "Total Non-Payroll Expenditures by Hospital" establishes that the facilities have shown a significant decrease in expenditures in the remaining line items. Using the 2017 data (year prior to the exemption) and the most recent 2020 State Fiscal Year, the facilities have shown a decrease in costs of over \$9,000,000.00.

**Total Non-Payroll Expenditures by Hospital  
 FY2016 - FY 2020**

	Hopemont	Lakin	JMHCC	Withrow	Welch	MMB	Sharpe	Total
2016	\$4,535,668	\$1,715,878	\$1,844,104	\$3,058,373	\$14,937,642	\$24,772,800	\$38,594,210	\$89,458,675
2017	\$4,036,430	\$2,007,975	\$1,893,438	\$2,610,399	\$15,039,557	\$26,000,827	\$47,440,912	\$99,029,538
2018	\$4,029,138	\$2,532,492	\$1,478,688	\$2,902,737	\$14,317,766	\$24,455,174	\$45,836,956	\$95,552,951
2019	\$3,230,324	\$2,898,880	\$2,020,811	\$3,803,588	\$18,676,692	\$24,856,849	\$41,676,999	\$97,164,143
2020	\$4,345,943	\$4,581,076	\$2,983,095	\$4,876,101	\$15,779,096	\$29,824,241	\$50,883,916	\$113,273,468

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**Total Expenditures for Contractual Services by Hospital  
 FY 2016 – FY 2020**

	Hopemont	Lakin	JMHCC	Withrow	Welch	MMB	Sharpe	Total
2016	\$2,620,001	\$256,817	\$790,528	\$329,581	\$447,870	\$5,125,548	\$8,074,432	\$17,644,777
2017	\$2,572,200	\$412,720	\$863,940	\$245,128	\$739,454	\$5,078,808	\$10,341,026	\$20,253,276
2018	\$1,992,646	\$1,182,161	\$602,181	\$838,042	\$1,418,089	\$5,935,234	\$9,252,656	\$21,221,009
2019	\$1,762,451	\$1,674,723	\$1,048,741	\$1,615,615	\$1,892,020	\$5,292,289	\$10,241,796	\$23,527,635
2020	\$3,168,253	\$3,326,540	\$1,974,781	\$2,515,239	\$3,675,840	\$10,142,531	\$18,839,089	\$43,642,273

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**Total Non-Payroll Expenses Minus Contractual Services  
 FY 2016 – FY 2020**

	Hopemont	Lakin	JMHCC	Withrow	Welch	MMB	Sharpe	Total
2016	\$1,915,667	\$1,459,061	\$1,053,576	\$2,728,792	\$14,489,772	\$19,647,252	\$30,519,778	\$71,813,898
2017	\$1,464,230	\$1,595,255	\$1,029,498	\$2,365,271	\$14,300,103	\$20,922,019	\$37,099,886	\$78,776,262
2018	\$2,036,492	\$1,350,331	\$876,507	\$2,064,695	\$12,899,677	\$18,519,940	\$36,584,300	\$74,331,942
2019	\$1,467,873	\$1,224,157	\$972,070	\$2,187,973	\$16,784,672	\$19,564,560	\$31,435,203	\$73,636,508
2020	\$1,177,690	\$1,254,536	\$1,008,314	\$2,360,862	\$12,103,256	\$19,681,710	\$32,044,827	\$69,631,195

Additionally, aside from the elimination of administrative burdens and the necessity of regulatory compliance discussed above, cost savings associated with the purchasing exemption cannot always be captured solely by looking at expenditure data. For example, Lakin Hospital was able to bring its laundry services in house and eliminate a large ongoing expense as a result of the purchasing exemption. Lakin had spent \$190,095.38 in SFY 2017 and \$163,835.42 in SFY 2018 on contractual laundry services, but with the initial purchase of washing machines, general supply costs, and the use of current staffing (no new hires), the facility was able to eliminate this significant ongoing annual cost. Similar savings were also recognized at Hopemont Hospital which switched back to in-house laundry and eliminated an annual expense of \$122,715.41.

The DHHR/OHF believes that caution should be used when assessing any general increase in overall expenditures. There are several different sources that can be referenced; however, the overall trends in the health care industry show annual increases in costs for the provision of services. Expenses continue to grow nationally through all facets of operations to include, but not limited to, supply costs, physicians' services, pharmaceutical costs, equipment costs, and ultimately staffing and contract workers. The DHHR/OHF believes that continuation of the purchasing exemption provides a more suitable framework for the seven facilities to carry out their mission while also allowing for the types of cost savings previously identified in the report.

The DHHR/OHF will continue to review its internal control processes and the DHHR *Exempt Goods and Services Contracts Purchasing Methodology and Manual* to make valued changes as we move forward with our administration of the facilities and provision of health care services to West Virginia residents.

We sincerely appreciate the way your team handled this review during these trying times, and we are thankful for the opportunity to respond to the report.

Sincerely,



Bill J Crouch  
Cabinet Secretary

BJC:kr

## **Appendix C**

### **Objective, Scope, and Methodology**

The Post Audit Division within the Office of the Legislative Auditor conducted this review as required by Chapter 5A, Article 3, Section 3B of the *West Virginia Code*, as amended.

#### **Objectives**

The objective of this review was *to determine the effects of the Legislative purchasing exemption granted to DHHR for the state-owned hospitals, including any substantive differences between DHHR's purchasing policies and the Purchasing Division's requirements, any realized cost-savings, and any other efficiencies resulting from the exemption.*

#### **Scope**

The scope of this review consists of all policies, procedures, manuals, or other requirements established by the DHHR governing purchasing for the state-owned hospitals. Further, the scope includes all non-payroll expenditures made by each of the seven state-owned hospitals during fiscal years 2016 through 2020. The scope also includes an analysis of the Purchasing Division's Purchasing Handbook over the same period. The audit team did assess the hospitals' compliance with the State Auditor's P-Card Policies and Procedures, nor did it assess the appropriateness of any specific expenditures. Finally, the audit's scope was expanded to include a limited inventory sample based upon issues identified by the audit team while conducting the audit.

#### **Methodology**

Post Audit staff gathered and analyzed several sources of information and assessed the sufficiency and appropriateness of the information used as evidence. Testimonial evidence was gathered through interviews or email correspondence with various employees at DHHR who oversee the financial and procurement function for the Department. The purpose for testimonial evidence was to gain a better understanding or clarification of certain issues, to confirm the existence or non-existence of a condition, or to understand the respective agency's position on an issue. Such testimonial evidence was confirmed by either written statements or the receipt of corroborating or physical evidence.

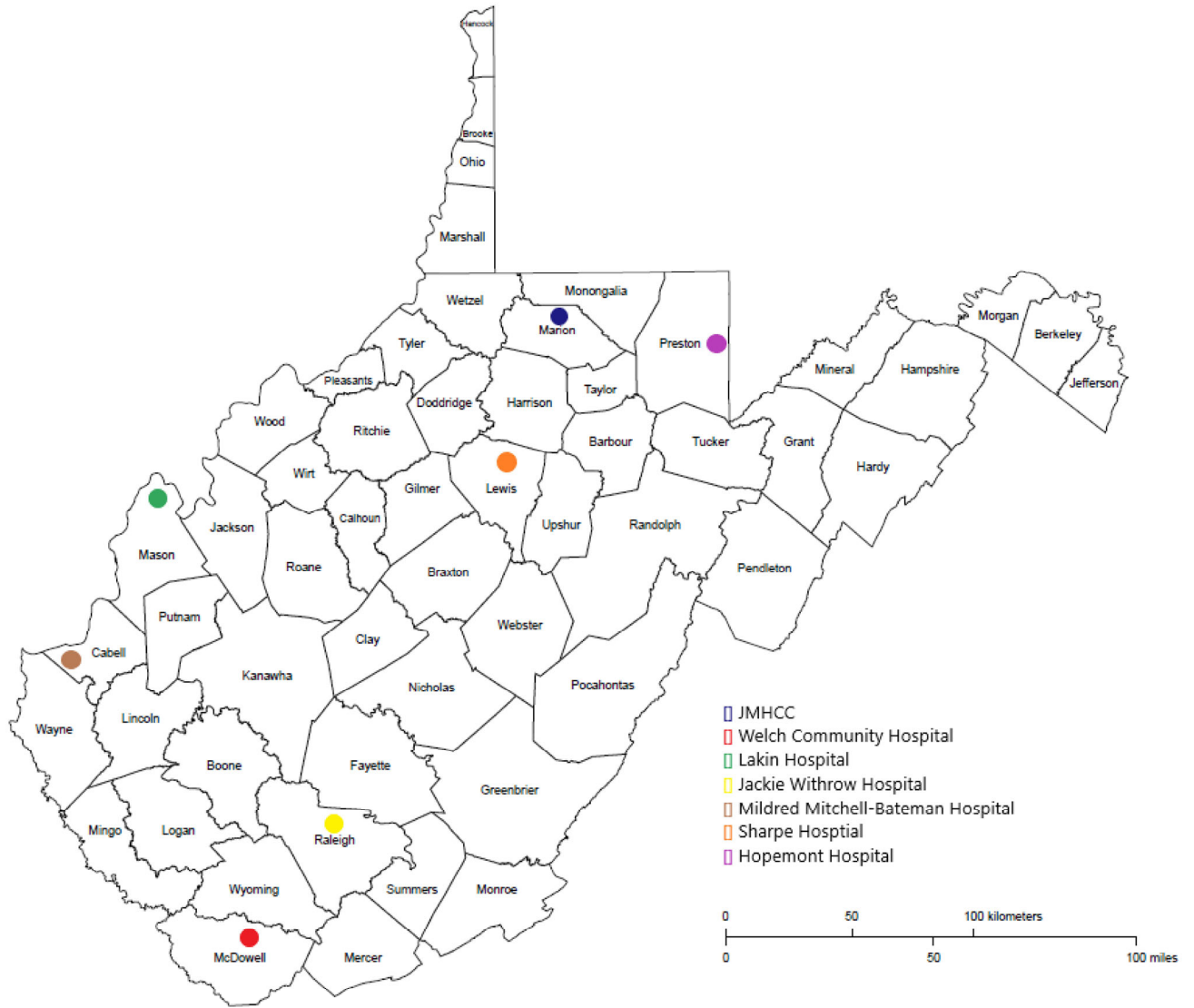
Audit staff analyzed various source documents that were either provided to us by DHHR or access from the wvOASIS system. The Legislative Auditor's Office reviews the statewide single audit and the DOH financial audit annually with regards to any issues related to the wvOASIS financial system. The Legislative Auditor's Office on a quarterly basis requests and reviews any external and internal audits of the wvOASIS financial system. Through its numerous audits, the Legislative Auditor's Office is constantly testing the financial information contained in the wvOASIS financial system. Based upon these actions, along with the audit tests conducted on the audited agency, it is our professional judgement that the information in the wvOASIS system is reliable for auditing purposes under the 2018 Yellowbook. However, in no manner should this



statement be construed as a statement that 100% of the information or calculations in the wvOASIS financial system is accurate.

We conducted this performance audit 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.

# Appendix D - Map of State-Owned Hospitals





POST AUDITS SUBCOMMITTEE  
MEMBERS

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