

Audit Report

Maryland Department of Health Regional Institutes for Children and Adolescents

July 2022

Public Notice

In compliance with the requirements of the State Government Article Section 2-1224(i), of the Annotated Code of Maryland, the Office of Legislative Audits has redacted a cybersecurity finding and related auditee response from this public report.



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Joint Audit and Evaluation Committee

Senator Clarence K. Lam, M.D. (Senate Chair)	Delegate Mark S. Chang (House Chair)
Senator Malcolm L. Augustine	Delegate Steven J. Arentz
Senator Adelaide C. Eckardt	Delegate Nicholas P. Charles II
Senator George C. Edwards	Delegate Andrea Fletcher Harrison
Senator Katie Fry Hester	Delegate Trent M. Kittleman
Senator Cheryl C. Kagan	Delegate Carol L. Krimm
Senator Benjamin F. Kramer	Delegate David Moon
Senator Cory V. McCray	Delegate Julie Palakovich Carr
Senator Justin D. Ready	Delegate Elizabeth G. Proctor
Senator Craig J. Zucker	Delegate Geraldine Valentino-Smith

To Obtain Further Information

Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, Maryland 21201
Phone: 410-946-5900
Maryland Relay: 711
TTY: 410-946-5401 · 301-970-5401
E-mail: OLAWebmaster@ola.state.md.us
Website: www.ola.state.md.us

To Report Fraud

The Office of Legislative Audits operates a Fraud Hotline to report fraud, waste, or abuse involving State of Maryland government resources. Reports of fraud, waste, or abuse may be communicated anonymously by a toll-free call to 1-877-FRAUD-11, by mail to the Fraud Hotline, c/o Office of Legislative Audits, or through the Office's website.

Nondiscrimination Statement

The Department of Legislative Services does not discriminate on the basis of age, ancestry, color, creed, marital status, national origin, race, religion, gender, gender identity, sexual orientation, or disability in the admission or access to its programs, services, or activities. The Department's Information Officer has been designated to coordinate compliance with the nondiscrimination requirements contained in Section 35.107 of the United States Department of Justice Regulations. Requests for assistance should be directed to the Information Officer at 410-946-5400 or 410-970-5400.



Victoria L. Gruber
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Gregory A. Hook, CPA
Legislative Auditor

July 13, 2022

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

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland Department of Health (MDH) – John L. Gildner Regional Institute for Children and Adolescents (Gildner RICA) and the Regional Institute for Children and Adolescents – Baltimore (Baltimore RICA), for the period beginning May 15, 2017 and ending March 31, 2021. Throughout this report, individually, we refer to each Institute as Gildner RICA and Baltimore RICA, respectively, and collectively as, Institutes. The Institutes provide mental health and educational services to adolescents from counties throughout the State of Maryland and Baltimore City.

In our previous audits of the Institutes, we issued separate audit reports for Gildner RICA and Baltimore RICA. Effective July 1, 2020, the Maryland Department of Health (MDH) transferred oversight of the Institutes from the Behavioral Health Administration budgetary unit to the MDH Operations Administration budgetary unit. To promote audit efficiency, we have consolidated our review of the two Institutes into one audit, with our recommendations being made to MDH Healthcare System under the MDH Operations Administration, on behalf of the Institutes.

Our audit disclosed that the Institutes did not consolidate procurements which resulted in the failure to maximize leverage as high-volume purchases and the circumvention of certain control agency approvals. For example, Baltimore RICA made 358 individual payments, each less than \$50,000 to one vendor, totaling \$683,000. By keeping individual purchases low, Baltimore RICA missed the opportunity to maximize its purchasing power and was not required to obtain certain approvals, such as the Department of General Services or Board of Public Works, as necessary.

In addition, the Institutes did not competitively procure certain goods and services, did not always have written contracts, and did not verify the propriety of invoices prior to payment. For example, Baltimore RICA made seven payments totaling \$97,000 to one vendor for sign language interpretation services without competitively procuring or establishing a contract for the services.

The Institutes also did not have agreements with their respective affiliated foundation to address the Institutes' and foundations' roles and responsibilities.

Furthermore, we found certain risks existed within the Institutes' payroll system. However, in accordance with the State Government Article, Section 2-1224(i) of the Annotated Code of Maryland, we have redacted that finding from this audit report. Specifically, State law requires the Office of Legislative Audits to redact cybersecurity findings in a manner consistent with auditing best practices before the report is made available to the public. The term "cybersecurity" is defined in the State Finance and Procurement Article, Section 3A-301(b), and using our professional judgment we have determined that the redacted finding falls under the referenced definition. The specifics of the cybersecurity finding were previously communicated to the MDH Healthcare System and the Institutes as well as those parties responsible for acting on our recommendations.

Finally, our audit included a review to determine the status of the two findings contained in our preceding audit report of Gildner RICA. We determined that both of these findings were satisfactorily addressed. Our audit also included a review to determine the status of the five findings contained in our preceding audit report of Baltimore RICA. We determined that Baltimore RICA satisfactorily addressed four of these findings. The remaining finding is repeated in this report.

MDH Healthcare System's response to this audit, on behalf of the Institutes, is included as an appendix to this report. We reviewed the response to our findings and related recommendations, and have concluded that the corrective actions identified are sufficient to address all audit issues. However, consistent with the requirements of State law, we have redacted the elements of MDH Healthcare System's response related to the cybersecurity audit finding.

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

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive style with a large, stylized 'G' and 'H'.

Gregory A. Hook, CPA
Legislative Auditor

Table of Contents

Background Information	6
Agency Responsibilities	6
Organizational and Audit Approach Changes	7
Status of Findings From Preceding Audit Reports	7
Findings and Recommendations	9
Purchases and Disbursements	
Finding 1 – Both John L. Gildner Regional Institute for Children and Adolescents and the Regional Institute for Children and Adolescents – Baltimore (Baltimore RICA) did not consolidate procurements for similar goods and services, resulting in the failure to maximize each’s leverage as a high-volume purchaser and the circumvention of certain oversight.	9
* Finding 2 – The Institutes did not competitively procure certain goods and services, did not always have written contracts, and did not verify the propriety of invoices prior to payment.	11
Payroll	
Finding 3 – Redacted cybersecurity-related finding	13
Affiliated Foundations	
Finding 4 – The Institutes did not have agreements with their respective affiliated foundation to address each entities’ roles and responsibilities.	13
Cash Receipts	
Finding 5 – Procedures and controls over cash receipts at Baltimore RICA were not sufficiently comprehensive.	15
Audit Scope, Objectives, and Methodology	17
Agency Response	Appendix

* Denotes item repeated in full or part from preceding audit report

Background Information

Agency Responsibilities

This audit includes the operations of the John L. Gildner Regional Institute for Children and Adolescents (Gildner RICA) and the Regional Institute for Children and Adolescents – Baltimore (Baltimore RICA). Throughout this report, individually, we refer to each Institute as Gildner RICA and Baltimore RICA, respectively, and collectively as, Institutes. The Institutes are residential and day treatment centers located in Rockville and Baltimore City, respectively, that provide inpatient and outpatient mental health treatment, education, and rehabilitative services to children and adolescents and their families throughout the State of Maryland. In addition, the Gildner RICA is responsible for the dietary program for the Alfred D. Noyes Children’s Center (a unit of the Department of Juvenile Services).

In fiscal year 2020, the Institutes provided housing for an average daily population of 73 residential students, and treatment for an average daily population of 121 outpatient students (see Figure 1). According to the State’s records, the Institutes’ expenditures for fiscal year 2020 totaled approximately \$35.3 million.

Figure 1
Average Daily Student Populations

Student Type	Institute	Fiscal Year			
		2017	2018	2019	2020
Residential (inpatient)	Gildner RICA	30	33	43	39
	Baltimore RICA	30	37	44	34
	Total	60	70	87	73
Day (outpatient)	Gildner RICA	82	64	55	79
	Baltimore RICA	55	55	58	42
	Total	137	119	113	121

Source: Agency records

The cost of treatment for the education program has remained relatively steady over the past several years (fiscal years 2017 through 2020), averaging approximately \$44,000 per student at both Institutes. The annual cost for students enrolled in the residential programs at the Gildner RICA and Baltimore RICA,

totaled approximately \$116,000 and \$164,000, respectively, in fiscal year 2020. This cost has fluctuated significantly over the past several years, due to various factors, such as variations in the average length of stay per child (see Figure 2).

Figure 2
Residential Cost per Admission
(Excluding Educational Expenses)

Institute	Fiscal Year			
	2017	2018	2019	2020
Gildner RICA	\$128,681	\$101,490	\$116,369	\$116,402
Baltimore RICA	\$203,683	\$189,426	\$192,517	\$163,968

Source: Agency records

Organizational and Audit Approach Changes

Effective July 1, 2020, the Maryland Department of Health (MDH) transferred oversight of the Institutes from the Behavioral Health Administration (BHA) budgetary unit to the MDH Operations Administration budgetary unit. In our previous audits of the Institutes, we issued separate audit reports for Gildner RICA and Baltimore RICA. In response to the change in oversight and to promote audit efficiency, we have consolidated our review of the two Institutes into one audit. Consequently, our audit report recommendations will be made to the MDH Healthcare System under the MDH Operations Administration, on behalf of the Institutes.

Status of Findings From Preceding Audit Reports

Our audit included a review to determine the status of the two findings contained in the Gildner RICA report, dated February 14, 2018, and the five findings in the Baltimore RICA report dated January 5, 2018. As disclosed in Figure 3 on the following page, we determined that the Institutes collectively satisfactorily addressed six of these findings. The remaining finding is repeated in this report.

Figure 3
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
John L. Gildner Regional Institute for Children and Adolescents		
Finding 1	The Institute did not always maintain sufficient documentation to support decisions made during its student prescreening process or maintain a tracking system to ensure such decisions were made within a reasonable period.	Not repeated
Finding 2	The Institute admitted 47 children directly to its short-term Evaluation Unit without any formal application process established by policy or regulation.	Not repeated
Regional Institute for Children and Adolescents – Baltimore		
Finding 1	RICA did not maintain an admission team to make admission determinations as required by State regulations, and certain critical documentation was not maintained.	Not repeated
Finding 2	There was a lack of segregation of duties in collection processing and accounts receivable recordkeeping.	Not repeated
Finding 3	RICA did not use a competitive procurement process for certain services, as required.	Repeated (Current Finding 2)
Finding 4	RICA did not have a process to ensure that all vendor amounts billed agreed to the related contractual terms and conditions.	Not repeated
Finding 5	RICA did not report unprovided for payables totaling \$700,000 to the Comptroller of Maryland at the 2015 fiscal year-end, as required.	Not repeated

Findings and Recommendations

Purchases and Disbursements

Finding 1

Both John L. Gildner Regional Institute for Children and Adolescents and the Regional Institute for Children and Adolescents – Baltimore did not consolidate procurements for similar goods and services, resulting in the failure to maximize each’s leverage as a high-volume purchaser and the circumvention of certain oversight.

Analysis

Both John L. Gildner Regional Institute for Children and Adolescents (Gildner RICA) and the Regional Institute for Children and Adolescents – Baltimore (Baltimore RICA) referred collectively as Institutes, did not consolidate their individual procurements to vendors for similar services and goods to maximize each’s leverage as a high-volume purchaser. Rather, the purchases were made by the respective Institute as separate individual purchases during the year. In addition, since these procurements were below certain dollar value thresholds, each Institute was able to circumvent certain State procurement regulations intended to enhance controls, oversight, and transparency. The Institutes procured goods and services totaling \$5.5 million in fiscal year 2020.

Our review of purchasing and payment activity for several vendors disclosed that each Institute had a pattern of not consolidating procurements, but rather splitting purchases into multiple purchase orders or payments not associated with purchase orders (see Figure 4 on the following page). Specifically, during the period from June 1, 2017 through March 31, 2021, the Institutes issued 1,610 purchase orders valued at approximately \$1.8 million and made an additional 264 payments unrelated to purchase orders valued at \$169,900. The total payments to five vendors, including both through purchase orders and direct payments unrelated to purchase orders, totaled \$1.8 million. Each of these purchase orders and payments were in amounts below \$25,000.

Figure 4
Vendor Purchasing Activity
June 1, 2017 through March 31, 2021

Vendor	Institute	Purchase Orders			Direct Payments	Total Paid
		Number	Total Value	PO Payments		
Educational Services ¹	Baltimore RICA	128	\$724,800	\$613,000	\$70,000	\$683,000
Food	Gildner RICA	453	382,700	356,200	3,500	359,700
Food	Baltimore RICA	142	328,000	296,600	3,500	300,100
Food	Gildner RICA	769	296,900	275,300	3,100	278,400
Janitorial	Gildner RICA	118	103,100	77,300	89,800	167,100
Total		1,610	\$1,835,500	\$1,618,400	\$169,900	\$1,788,300

Source: State financial records

¹ Purchasing activity for this vendor ended February 2020

For example, for the educational services vendor, the Baltimore RICA issued 128 purchase orders valued at \$724,800, and made 287 related payments totaling \$613,000. In addition, Baltimore RICA made a further 71 direct payments totaling \$70,000 unrelated to these purchase orders. The total payments to this vendor were \$683,000 and ranged in amounts from \$35 to \$8,705. By keeping individual purchases low (under \$50,000), the Baltimore RICA was not required to obtain MDH – Office of Contract Management and Procurement (OCMP), Department of General Services (DGS), or Board of Public Works (BPW) approvals as necessary.

A similar condition was noted in the prior report with this vendor and a lack of competitive procurement for the related services. State records disclosed the final payment to this vendor was posted in February 2020 and we were advised by Baltimore RICA personnel that a competitive procurement was performed in March 2020, which resulted in a formal contract executed to a new educational services vendor.

State procurement regulations prohibit procurements from being artificially divided to circumvent procurement requirements. Regulations further state that contracts for goods or services of \$50,000 or more require DGS approval and BPW approval for contracts valued at \$200,000 or greater. Finally, the Maryland Department of Health (MDH) *Procurement Policy* requires procurements exceeding \$50,000 to be submitted to MDH OCMP for processing.

Recommendation 1

We recommend that MDH Healthcare System, in conjunction with DGS, consolidate each Institute's respective procurements to maximize State purchasing power and enhance controls and oversight.

Finding 2

The Institutes did not competitively procure certain goods and services, did not always have written contracts, and did not verify the propriety of invoices prior to payment.

Analysis

The Institutes did not competitively procure certain goods and services, did not always have written contracts, and did not verify the propriety of invoices prior to payment. Our test¹ of 16 payments totaling approximately \$284,000 (ranging from \$5,600 to \$48,400) disclosed that 10 payments totaling \$128,000 to three vendors were made without seeking competition and without formal contracts (see Figure 5). For each of these 10 payments, the applicable Institute created a purchase order after the related invoice was received in order to process a payment through the State's automated financial system, but did not seek competition or establish a formal contract with the vendor.

Figure 5
Results of Test of Payments

Institute	Payments Tested		Payments Tested Without a Competitive Contract	
Baltimore RICA	10	\$145,000	8	\$106,000
Gildner RICA	6	139,000	2	22,000
Total	16	\$284,000	10	\$128,000

Source: Agency records

¹ Our selection of test items was based on the significance of vendor payments during the audit period.

For example, Baltimore RICA made seven payments totaling \$97,000 to one vendor for sign language interpretation services without competitively procuring or establishing a contract for the services. Baltimore RICA processed these payments by creating a purchase order after the related services were received. We were advised by Baltimore RICA management that these services were obtained through a statewide contract for translation services; however, this contract specifically excluded sign language services.

We expanded our review to include 176 payments totaling \$543,000 which disclosed that for 168 payments totaling \$452,000, the applicable Institute could not locate documentation (such as a contract, purchase order, or quote) that would allow verification of the accuracy of the related invoice (see Figure 6).

Figure 6
Review of Payments

Institute	Payment Activity Reviewed		Payments Lacking Support	
Baltimore RICA	138	\$336,000	138	\$336,000
Gildner RICA	38	207,000	30	116,000
Total	176	\$543,000	168	\$452,000

Source: Agency records

For example, Gildner RICA made 25 payments totaling \$67,400 to one vendor for nursing services provided between September 2017 and February 2021. Of those 25 payments, 7 referenced a contract which could not be located, and 12 did not reference a contract. Consequently, Gildner RICA paid the invoice without verifying the accuracy of the hourly rate billed.

A similar condition regarding the need to comply with State procurement regulations was commented upon in our two preceding reports of Baltimore RICA. State procurement regulations require a formal written procurement process (such as competitive sealed bidding) for procurements that are reasonably expected to exceed \$5,000 and that these procurements be supported by a written contract or purchase order. In addition, the Comptroller of Maryland's *Accounting Procedures Manual* requires agencies to document that invoices agree with supporting documentation.

Recommendation 2

We recommend that MDH Healthcare System ensure that each Institute

- a. comply with State procurement regulations and ensure procurements are properly solicited and documented (repeat from Baltimore RICA), and**
- b. retain appropriate documentation (such as contracts) and use this documentation to verify the accuracy of the invoices.**

Payroll

We determined that Finding 3 related to “cybersecurity”, as defined by the State Finance and Procurement Article, Section 3A-301(b) of the Annotated Code of Maryland, and therefore is subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Consequently, the specifics of the following finding, including the analysis, related recommendation(s), along with MDH Healthcare System’s responses, have been redacted from this report copy.

Finding 3

Redacted cybersecurity-related finding.

Affiliated Foundations

Finding 4

The Institutes did not have agreements with their respective affiliated foundation to address each entities’ roles and responsibilities.

Analysis

Each Institute did not have a memorandum of agreement (MOA) with its respective affiliated foundation, the RICA Rockville Association (for Gildner RICA) and the RICA Auxiliary, Inc. (for Baltimore RICA), to address each entities’ roles and responsibilities. The foundations are tax exempt organizations that were created in 1987 and 2018, respectively, to fund special programs and projects for enrolled students, by fundraising and providing contributions to each Institute. According to filings with the Internal Revenue Service, the foundations affiliated with the Gildner RICA and Baltimore RICA reported on their federal tax returns, receipts totaling \$74,420 and less than \$50,000 for the year ending June 30, 2020, respectively.

The MOA should specify the roles and responsibilities of each entity, including the following:

- The foundation's solicitation, collection, administration, and investment of funds,
- The foundation's procurement policies for purchases donated to the Institute,
- The foundation's submission of an annual audited report to the Institute,
- The sharing of priorities, projects and resource requirements, including the sharing of any non-private data to assist the foundation's effort,
- Providing of any in-kind support functions and the use of its facilities, and
- The foundation's ethics policies to identify and manage potential conflicts of interest.

For example, an MOA between the Institutes and affiliated foundations could address possible conflicts of interest that we noted from the affiliated foundations' federal tax returns. Specifically, while we were advised by RICA management that its employees only act as volunteers, the tax return identified one Gildner RICA employee as the custodian of the foundation's financial records and the primary contact. In addition, a foundation officer was the spouse of a senior manager at Baltimore RICA. Senior management personnel at the State Ethics Commission advised us that such relationships may violate State ethics law. The State Ethics Commission would ultimately make any final decision related to violations of the State ethics laws. In addition, the MDH *Policies for the Organization and Operation of Ancillary Organizations* prohibits MDH employees from working for an affiliated foundation because this may create the appearance of a conflict of interest.

As of January 2022, the RICA Rockville Association had five board members and RICA Auxiliary, Inc. had three board members. These board members were collectively responsible for managing each foundation's fiscal affairs and approving expenditures to support their mission.

Recommendation 4

We recommend that MDH Healthcare System

- a. ensures that each Institute enters into MOAs with affiliated foundations to, at a minimum, detail the roles and responsibilities for each entity in critical areas such as solicitation, investment, procurement, and ethics policies (both MDH and State Ethics Commission); and**
- b. refers any matters potentially violating State ethics law, including the matter discussed above relating to Baltimore RICA, to the State Ethics Commission and take action to comply with any decisions that the State Ethics Commission provides on these matters.**

Cash Receipts

Finding 5

Procedures and controls over cash receipts at Baltimore RICA were not sufficiently comprehensive.

Analysis

Baltimore RICA's² controls over the cash receipts and the deposit process were inadequate. The cash and check collections at Baltimore RICA totaled approximately \$3 million during fiscal year 2020.

- The employee who was responsible for verifying collections were deposited had access to the related collections and was not independent. Consequently, there was a lack of assurance that all collections had been deposited. The Comptroller of Maryland's *Accounting Procedures Manual* requires that an independent employee perform a reconciliation of recorded collections from the initial point of recordation to amounts deposited.
- Baltimore RICA did not maintain a log of checks destroyed after being deposited through the remote deposit system, as required. Consequently, there was a lack of assurance that all checks received were destroyed. The State Treasurer's *Policy on the Use of Remote Deposit Services by Maryland State Agencies* requires a log to be maintained tracking the dates checks are destroyed to verify that all checks received and processed through the bank's remote deposit system were subsequently destroyed.
- Baltimore RICA did not require large payments to be made electronically to enhance accountability and security over the funds. During fiscal year 2020, \$2.9 million in collections were received from Local Education Agencies as reimbursement for education services provided to students. Our review disclosed that 30 of these 174 check payments (totaling \$2.7 million) ranged in amounts from \$22,000 up to \$214,000. Controls could be enhanced by requiring these payments to be submitted electronically (such as via wire transfer).

² Based on our assessment of risk, we limited our review of procedures and controls over cash and check collections to Baltimore RICA.

Recommendation 5

We recommend that MDH Healthcare System ensure that sufficient controls over cash receipts are implemented at Baltimore RICA by

- a. ensuring that an independent employee is responsible for verifying that all recorded collections were deposited by establishing an adequate segregation of duties between collections and reconciling,**
- b. ensuring that checks processed through the bank's remote deposit system are logged and reconciled, and**
- c. considering requiring large payments to be made electronically to enhance control over the funds.**

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

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Department of Health (MDH) – John L. Gildner Regional Institute for Children and Adolescents (Gildner RICA) and the Regional Institute for Children and Adolescents – Baltimore (Baltimore RICA) (Institutes), for the period beginning May 15, 2017 and ending March 31, 2021. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine the Institutes' financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included certain procurements and disbursements, cash receipts, equipment, certain payroll activities, and patient admissions. We also determined the status of the findings contained in our preceding audit reports.

Our audit did not include certain support services provided to the Institutes by MDH – Office of the Secretary. These support services (such as certain other payroll and procurement activities, maintenance of accounting records, and related fiscal functions) are included within the scope of our audit of the Office of the Secretary.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of May 15, 2017 to March 31, 2021, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions and to the extent practicable, observations of the Institutes' operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do

not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these sources were sufficiently reliable for the purposes the data were used during this audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

Under MDH Healthcare System, a part of MDH Operations Administration, the Institutes' managements are responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records; effectiveness and efficiency of operations including safeguarding of assets; and compliance with applicable laws, rules, and regulations are achieved. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to the Institutes, were considered by us during the course of this audit.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect the Institutes' ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to the Institutes' that did not warrant inclusion in this report.

State Government Article Section 2-1224(i) requires that we redact in a manner consistent with auditing best practices any cybersecurity findings before a report is made available to the public. This results in the issuance of two different versions of an audit report that contains cybersecurity findings – a redacted version for the public and an unredacted version for government officials responsible for acting on our audit recommendations.

The State Finance and Procurement Article, Section 3A-301(b), states that cybersecurity is defined as “means processes or capabilities wherein systems, communications, and information are protected and defended against damage, unauthorized use or modification, and exploitation”. Based on that definition, and in our professional judgement, we concluded that a finding in this report meets that definition. Consequently, for the publicly available audit report all specifics as to the nature of that cybersecurity finding and required corrective actions have been redacted. We have determined that such aforementioned practices, and government auditing standards, support the redaction of this information from the public audit report. The specifics of the cybersecurity finding have been communicated to the MDH Healthcare System and those parties responsible for acting on our recommendations in an unredacted audit report.

The response from MDH Healthcare System, on behalf of the Institutes, to our findings and recommendations is included as an appendix to this report. Depending on the version of the audit report, responses to any cybersecurity findings may be redacted in accordance with State law. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise MDH regarding the results of our review of its response.

APPENDIX



Larry Hogan, Governor · Boyd K. Rutherford, Lt. Governor · Dennis R. Schrader, Secretary

June 17, 2022

Mr. Gregory A. Hook, CPA
Legislative Auditor
Office of Legislative Audits
State Office Building, Room 1202
301 West Preston Street
Baltimore, MD 21201

Dear Mr. Hook:

Enclosed is the draft audit report on the Maryland Department of Health – Regional Institutes for Children and Adolescents for the period beginning May 15, 2017 and ending March 31, 2021.

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

Sincerely,

A handwritten signature in black ink that reads "Dennis R. Schrader". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Dennis R Schrader, Secretary
Maryland Department of Health

Enclosure

cc: Webster Ye, Assistant Secretary, Health Policy, MDH
Dwain Shaw, Director, Prevention and Health Promotion Administration
Atif Chaudry, Deputy Secretary for Operations
Sara Barra, Chief of Staff
Frederick D. Doggett, Director, Internal Controls, Audit Compliance & Security, MDH
Annie Olle, Chief of Staff, MPP
Bryan Mroz, Director, MDH Healthcare System

**Maryland Department of Health
Regional Institutes for Children and Adolescents**

Agency Response Form

Purchases and Disbursements

Finding 1

Both John L. Gildner Regional Institute for Children and Adolescents and the Regional Institute for Children and Adolescents – Baltimore did not consolidate procurements for similar goods and services, resulting in the failure to maximize each’s leverage as a high-volume purchaser and the circumvention of certain oversight.

We recommend that MDH Healthcare System, in conjunction with DGS, consolidate each Institute’s respective procurements to maximize State purchasing power and enhance controls and oversight.

Agency Response	
Analysis	Factually Accurate
	<p>The MDH Healthcare System, which was established on July 1, 2021 comprises the eleven operating MDH healthcare facilities, including the five adult psychiatric hospitals, the two long term acute care hospitals, the two facilities for individuals with intellectual disabilities, and the two Regional Institutes for Children and Adolescents, which are the subject of this audit report.</p> <p>The MDH Healthcare System was established to create opportunities for both standardization of policies and procedures and sharing of resources where appropriate and beneficial to optimize patient care and fiscal responsibility. We are in the process of creating and hiring additional oversight positions for functions such as procurement and financial services to ensure that appropriate procedures are followed consistently. We are reviewing existing practices to ensure compliance and exploration of opportunities to maximize State purchasing power across the system as a top priority for the next phase of the MDH Healthcare System’s development.</p> <p>Although the purpose of the MDH Healthcare System is to unify the MDH healthcare facilities under one administration, it is important to note that each facility is different and not all policies, procedures, and recommendations will impact every facility in the same way, nor will every facility be able to implement them uniformly. Even among facilities grouped together by the service lines listed above, there are key differences that must be taken into account. We expect those differences will be highlighted as you continue your grouped facility audits.</p>

**Maryland Department of Health
Regional Institutes for Children and Adolescents**

Agency Response Form

	<p>The MDH Healthcare System will pursue shared services contracts for certain services covering multiple facilities to optimize our procurements both fiscally and in terms of goods and services provided. In this particular case, the RICAs already use state contracts where practicable, but after consultation with the MDH Office of Contract Management and Procurement and the Department of General Service's Office of State Procurement, we have found that there are additional opportunities to consolidate procurements, such as a multi-vendor award master procurement for foods and other items, as well as opportunities to take advantage of federal programs used by MSDE and DJS for the provision of fresh foods directly from the USDA.</p>		
Recommendation 1	Agree	Estimated Completion Date:	December 31, 2022
Please provide details of corrective action or explain disagreement.	<p>The MDH Healthcare System will explore opportunities to consolidate contracts, including pursuing multi-vendor award master contracts for the provision of foods as well as opportunities to take advantage of federal programs used by MSDE and DJS for the provision of fresh foods directly from the USDA. To the extent possible, MDH will take appropriate actions to follow procurement practices while ensuring compliance with the USDA regulations and meeting the needs of teenagers. The RICAs will continue to procure goods to the maximum State purchase power to enhance controls and oversight.</p>		

Finding 2

The Institutes did not competitively procure certain goods and services, did not always have written contracts, and did not verify the propriety of invoices prior to payment.

We recommend that MDH Healthcare System ensure that each Institute

- a. comply with State procurement regulations and ensure procurements are properly solicited and documented (repeat from Baltimore RICA), and**
- b. retain appropriate documentation (such as contracts) and use this documentation to verify the accuracy of the invoices.**

Agency Response	
Analysis	Factually Accurate

**Maryland Department of Health
Regional Institutes for Children and Adolescents**

Agency Response Form

Please provide additional comments as deemed necessary.			
Recommendation 2a	Agree	Estimated Completion Date:	December 31, 2022
Please provide details of corrective action or explain disagreement.	The RICAs will document and implement a process for complying with State procurement regulations and ensuring procurements are properly solicited and documented. Purchases within delegated authority will be done immediately, while others will have to go through the full contracting process which will take 6 months to a year.		
Recommendation 2b	Agree	Estimated Completion Date:	April 1, 2022
Please provide details of corrective action or explain disagreement.	The RICAs will document and implement a process for retaining contracts and verifying the accuracy of invoices.		

Payroll

The Office of Legislative Audits (OLA) has determined that Finding 3 related to “cybersecurity”, as defined by the State Finance and Procurement Article, Section 3A-301(b) of the Annotated Code of Maryland, and therefore is subject to redaction from the publicly available audit report in accordance with State Government Article 2-1224(i). Although the specifics of the finding, including the analysis, related recommendation(s), along with the Agency’s responses, have been redacted from this report copy, the System’s response indicated agreement with the finding and related recommendation(s).

Finding 3
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Affiliated Foundations

Finding 4
The Institutes did not have agreements with their respective affiliated foundation to address each entities’ roles and responsibilities.

**Maryland Department of Health
Regional Institutes for Children and Adolescents**

Agency Response Form

We recommend that MDH Healthcare System

- a. ensures that each Institute enters into MOAs with affiliated foundations to, at a minimum, detail the roles and responsibilities for each entity in critical areas such as solicitation, investment, procurement, and ethics policies (both MDH and State Ethics Commission); and**
- b. refers any matters potentially violating State ethics law, including the matter discussed above relating to Baltimore RICA, to the State Ethics Commission and take action to comply with any decisions that the State Ethics Commission provides on these matters.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 4a	Agree	Estimated Completion Date:	June 30, 2022
Please provide details of corrective action or explain disagreement.	<p>JLG-RICA</p> <p>RICA Gildner will enter into MOAs with affiliated foundations to, at a minimum, detail the roles and responsibilities for each entity in critical areas such as solicitation, investment, procurement and ethics policies where applicable.</p>		
	<p>RICA-Baltimore</p> <p>Agree: Estimated Completion Date: June 30, 2022</p> <p>RICA-Baltimore will enter into a MOA with the RICA Auxiliary. The MOA will address the roles and responsibilities for each entity in critical areas such as solicitation, investment, procurement, and ethics policies.</p> <p>As part of the MOA, MDH intends to require the auxiliary to submit an affidavit of compliance every year that ensures none of its members have engaged in any solicitation, investments, procurement or any ethics violations.</p>		
Recommendation 4b	Agree	Estimated Completion Date:	July 15, 2022

**Maryland Department of Health
Regional Institutes for Children and Adolescents**

Agency Response Form

Please provide details of corrective action or explain disagreement.	The RICAs agree to refer any matters potentially violating State ethics law, including the matter discussed above relating to Baltimore RICA, to the State Ethics Commission and take action to comply with any decisions that the State Ethics Commission provides on these matters.
---	---

Cash Receipts

Finding 5
Procedures and controls over cash receipts at Baltimore RICA were not sufficiently comprehensive.

We recommend that MDH Healthcare System ensure that sufficient controls over cash receipts are implemented at Baltimore RICA by

- a. ensuring that an independent employee is responsible for verifying that all recorded collections were deposited by establishing an adequate segregation of duties between collections and reconciling,
- b. ensuring that checks processed through the bank's remote deposit system are logged and reconciled, and
- c. considering requiring large payments to be made electronically to enhance control over the funds.

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

Agency Response			
Analysis	Factually Agree		
Please provide additional comments as deemed necessary.			
Recommendation 5a	Agree	Estimated Completion Date:	June 30, 2022
Please provide details of corrective action or explain disagreement.	RICA Baltimore will document and implement a process to ensure that fiscal and program staff will follow the State Treasury Remote Deposit Policy where an independent employee will be responsible for verifying that all recorded collections were deposited by establishing an adequate segregation of duties between processing receipt transactions and reconciling.		

**Maryland Department of Health
Regional Institutes for Children and Adolescents**

Agency Response Form

Recommendation 5b	Agree	Estimated Completion Date:	June 30, 2022
Please provide details of corrective action or explain disagreement.	RICA will document and update, as needed, its process for ensuring checks processed through the remote system are logged & reconciled.		
Recommendation 5c	Agree	Estimated Completion Date:	June 30, 2022
Please provide details of corrective action or explain disagreement.	RICA will document and implement a process for requiring large payments to be made electronically to enhance control over the funds.		

AUDIT TEAM

Heather A. Warriner, CPA
Audit Manager

Walter L. Horan, IV
Senior Auditor

Ibijoke O. Owolabi, CPA
Staff Auditor