

Audit Report

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**Regional Institute for Children and Adolescents  
Southern Maryland**

December 2008

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**OFFICE OF LEGISLATIVE AUDITS  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY**

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Karl S. Aro  
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA  
Legislative Auditor

December 16, 2008

Senator Verna L. Jones, Co-Chair, Joint Audit Committee  
Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Regional Institute for Children and Adolescents – Southern Maryland (RICA-SM), a unit of the Department of Health and Mental Hygiene, for the period beginning December 1, 2005 and ending June 30, 2008, the date that RICA-SM was closed. RICA-SM provided mental health and educational services to emotionally disturbed children and adolescents primarily from Calvert, Charles, Prince George's, and St. Mary's Counties.

Our audit disclosed numerous equipment and supplies record keeping and inventory control deficiencies. Our audit also disclosed that RICA-SM failed to pursue certain payments noted in our preceding audit report as questionable or non-compliant with contract terms.

The Department of Health and Mental Hygiene's response to this audit, on behalf of RICA-SM, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by RICA-SM.

Respectfully submitted,

Bruce A. Myers, CPA  
Legislative Auditor



## **Background Information**

### **Agency Responsibilities**

The Regional Institute for Children and Adolescents – Southern Maryland (RICA-SM) is located in Prince George's County and is part of the Department of Health and Mental Hygiene's Mental Hygiene Administration. Until its closure in June 2008, the facility provided mental health and educational services to emotionally disturbed children and adolescents primarily from Calvert, Charles, Prince George's, and St. Mary's Counties.

During fiscal year 2008, a decision was made to consolidate the Department's mental hygiene facilities due to a reduction in the number of residents requiring services and to eliminate the costs to maintain these facilities. As a result, the Administration initiated procedures to close RICA-SM and, as of June 30, 2008, all residents had been transferred from RICA-SM to alternative living facilities (such as to other State facilities) commensurate with their needs.

As of September 26, 2008, we were advised that the Department of Health and Mental Hygiene (DHMH) was pursuing several potential leases of the RICA-SM facility, but that there was no specific date for the lease(s) to be finalized.

### **Asset Liquidation**

The liquidation of certain RICA-SM equipment had not been finalized. Specifically, according to its detail records, RICA-SM had 417 capital equipment items totaling \$423,000 as of July 1, 2008. However, according to its detail records, approximately 142 items, with an inventory book value totaling \$164,000, remained at RICA-SM as of September 26, 2008. We were advised by RICA-SM management that the remaining equipment will be disposed of over the next several months.

### **Status of Findings From Preceding Audit Report**

Our audit included a review to determine the status of the two findings contained in our preceding audit report dated June 12, 2006. We determined that the RICA-SM satisfactorily addressed one of these findings; the remaining finding is repeated in this report.

## Findings and Recommendations

### **Finding 1**

**Numerous recordkeeping and inventory deficiencies hindered adequate control over the asset liquidation process.**

### **Analysis**

RICA-SM did not have adequate controls over its equipment and supplies, hindering the liquidation process. Specifically, our review disclosed the following deficiencies:

- RICA-SM did not maintain an equipment control account during fiscal year 2008 to ensure the accuracy of the related detail capital equipment records. In addition, although we were advised that the physical inventory of capital equipment conducted in fiscal year 2008 was performed by independent employees, certain inventory count sheets were not signed by the employees who counted the items. As a result, there was a lack of assurance that all equipment purchased in fiscal year 2008 was properly accounted for. As of July 1, 2008, RICA-SM's detail equipment records were valued at \$423,000.
- Inventories conducted of non-capital equipment (that is, equipment that was less than the prescribed capitalization thresholds and, therefore, was not recorded in the aforementioned detail records) and supplies were not used in the liquidation process and were not always properly documented.

Specifically, to facilitate the liquidation process, RICA-SM employees inventoried non-capital equipment and supplies in fiscal year 2008. However, certain inventory count sheets documenting the physical inventories were not signed by the employees who counted the items. As a result, there was a lack of assurance that physical inventories were conducted by independent employees. As of June 30, 2008, RICA-SM reported that its supplies were valued at \$40,820.

Furthermore, RICA-SM management did not use the inventories to monitor the proper disposition of these assets during the liquidation process (such as, by tracking the disposition of the assets identified during the inventories). This is significant because RICA-SM lacked any other record of non-capital equipment and supplies. As a result, there was a lack of assurance that all items had been properly disposed of.

The Department of General Services' *Inventory Control Manual* requires that a control account and detail records be maintained to properly reflect all transactions and that the detail records be reconciled to the related control account balance.

#### **Recommendation 1**

**We recommend that DHMH ensure that its facilities maintain the required equipment records and perform physical inventories, as required. In addition, we recommend that for future agency closings, DHMH ensure that there is adequate accountability for all equipment and supplies to facilitate the liquidation process.**

#### **Disbursements**

##### **Finding 2**

**DHMH had not completed a review of certain payments noted in our preceding audit report as questionable or non-compliant with contract terms.**

##### **Analysis**

DHMH had not completed a review of two heating, ventilation, and air conditioning (HVAC) vendors that were paid approximately \$184,000 during fiscal years 2003 through 2005. In our preceding audit, we noted that certain payments to these vendors did not comply with contract terms or were questionable. For example, although the contracts provided that the vendors were to provide emergency services at a fixed hourly rate and that the first two hours of service were to be provided at no charge, we noted numerous invoices for which there was no indication that the required two-hour credit had been received.

Accordingly, in our preceding audit report, we recommended that RICA-SM, in conjunction with the Department of General Services (DGS) and DHMH, conduct a thorough review of the matter. We also recommended that RICA-SM recover any amounts due and determine if any of this activity should be forwarded to the Office of the Attorney General – Criminal Division (OAG-CD).

During our current audit, RICA-SM provided us with a listing of \$180,000 of the aforementioned \$184,000 in invoices paid to these two vendors that identified potential overpayments totaling \$35,000. However, as of August 13, 2008, DHMH had been unable to determine who within DHMH prepared this listing, if the vendors were billed for the overpayments, and if any amounts had been recovered.

**Recommendation 2**

**We again recommend that DHMH conduct a complete review of the payments to the aforementioned vendors. Specifically, we recommend that DHMH determine the status of the aforementioned review of HVAC vendor invoices (such as whether the invoices were reviewed by an individual knowledgeable about such services, and whether the overpayments were billed and recovered from the vendor). We also again recommend that DHMH determine if any of this activity was or should be, forwarded to the OAG-CD.**



## **Audit Scope, Objectives, and Methodology**

We have audited the Regional Institute for Children and Adolescents – Southern Maryland (RICA-SM), a unit of the Department of Health and Mental Hygiene’s Mental Hygiene Administration, for the period beginning December 1, 2005 and ending June 30, 2008. 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 RICA-SM’s financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings contained in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of RICA-SM’s operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Since RICA-SM closed on June 30, 2008, our audit also included a review of the procedures used by RICA-SM and the Mental Hygiene Administration with respect to the closing. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

RICA-SM’s management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

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 RICA-SM's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes a significant instance of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to RICA-SM that did not warrant inclusion in this report.

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



APPENDIX  
STATE OF MARYLAND  
**DHMH**

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Maryland Department of Health and Mental Hygiene  
201 W. Preston Street • Baltimore, Maryland 21201

Martin O'Malley, Governor – Anthony G. Brown, Lt. Governor – John M. Colmers, Secretary

December 12, 2008

Bruce Myers, CPA  
Legislative Auditor  
Office of Legislative Audits  
301 West Preston Street  
Baltimore, MD 21201

Dear Mr. Myers:

Thank you for your letter regarding the draft audit report of the Regional Institute for Children and Adolescents- Southern Maryland for the period beginning December 1, 2005 and ending June 30, 2008. Enclosed you will find the Department's response and plan of correction that addresses each audit recommendation.

I will work with the appropriate Directors of Administration, Program Directors, and Deputy Secretary to promptly address all audit exceptions. In addition, the Division of Internal Audits will follow-up on the recommendations to ensure compliance.

If you have any questions or require additional information, please do not hesitate to contact me at 410-767-4639 or Thomas V. Russell, Inspector General, at 410-767-5862.

Sincerely,

John M. Colmers  
Secretary

Enclosure

cc: Renata Henry, Deputy Secretary, Behavioral Health and Disabilities  
Valerie Roddy, Assistant Director to the Deputy Secretary, Behavioral Health and Disabilities  
Brian Hepburn, M.D., Executive Director, MHA  
Thomas V. Russell, Inspector General, DHMH  
Ellwood L. Hall Jr., Assistant Inspector General, DHMH  
Mary Sheppard, CEO, RICA-SM

**Finding 1**

**Numerous recordkeeping and inventory deficiencies hindered adequate control over the asset liquidation process.**

**Recommendation 1**

**We recommend that DHMH ensure that its facilities maintain the required equipment records and perform physical inventories, as required. In addition, we recommend that for future agency closings, DHMH ensure that there is adequate accountability for all equipment and supplies to facilitate the liquidation process.**

**DHMH Response:**

While the Department concurs with this finding, the closure of RICA-SM had to be completed in less than three months, by June 30, 2008. This involved notifying 48 employees of the loss of their jobs, finding placements for 60 children in the day program and 14 children in the residential program, and initiating a closure process for the physical plant. RICA-SM performed a physical inventory of fixed assets, non-capital equipment and supplies; however, it was done without the guidance of knowledgeable personnel. The Fiscal Officer and Chief Financial Officer left in April before the inventory began. RICA-SM personnel performed the physical inventories in teams of two, with one person performing the count and the other person recording the count. The inventory sheets were initialed and dated by the employees and given to their supervisor who was accountable for the delegation of duties. When the inventory was transferred to another DHMH facility, a detailed list of the inventory was given to and signed by the receiving agency and a copy is maintained by RICA-SM which the Department feels was commendable under the circumstances. Going forward, the DHMH will reemphasize to its units the requirements to maintain equipment records and the necessity of performing physical inventories in accordance with the DGS Inventory Control Manual. In addition, DHMH will remind any units undergoing closure, of the requirements to maintain adequate accountability for all equipment and supplies to facilitate the liquidation process.

## **Disbursements**

### **Finding 2**

**DHMH had not completed a review of certain payments noted in our preceding audit report as questionable or non-compliant with contract terms.**

### **Recommendation 2**

**We again recommend that DHMH conduct a complete review of the payments to the aforementioned vendors. Specifically, we recommend that DHMH determine the status of the aforementioned review of HVAC vendor invoices (such as whether the invoices were reviewed by an individual knowledgeable about such services and whether the overpayments were billed and recovered from the vendor). We also again recommend that DHMH determine if any of this activity was or should be, forwarded to the OAG-CD.**

### **DHMH Response:**

The Department concurs with the findings but does not agree that pursuit of the recommendation is a viable option given the current circumstances. At this point in time, which is over eight years since payments had been made to the contractor and the fact that the facility is closed, makes it highly improbable that legally the Department could collect from the contractor even if it could resurrect the contract documents/invoices and determine with certainty that the Center was over billed. In addition, documentation demonstrates that there was an independent review on 10/30/2006 by a maintenance chief at another facility to determine the appropriateness of charges under the service agreements between the two contracts. The reviewer states "...I don't see any parts or material cost that seem to be outrageous. The majority of the invoices were submitted by one contractor. Based on this, and using the contract specifications for them, the Facility is responsible for all material costs." He goes on to state, "...The audit states that the hourly rate on one contract was for \$90.00 total, but the vendor was charging \$90.00 per person. Neither contract is very clear on this point. I can see how an argument can be made either way. I don't see any way a Contractor would concede this without a fight. It does appear that there were invoices where

the first two hours of labor should have been deducted and they were not. If the vendor is still in business you may be able to go after him, but again I am sure he would fight it.” The Department has also been advised by its AG’s Office that because of the cited issues, it would be difficult to win a legal case against the vendors.<sup>1</sup>

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<sup>1</sup> **Auditor’s Comment:** The Department’s response indicates that pursuit of the overpayments is not a viable option for various reasons, including advice received by the Department’s AG who indicated that it would be difficult to win a legal case against the vendors.

While collection efforts and legal action may not be successful, it should not preclude reasonable efforts to recover overpayments from the vendors. Furthermore, the Department failed to acknowledge that there were potentially \$35,000 in overpayments based on a detailed analysis previously prepared by DHMH. We continue to believe that the Department should conduct a complete review of the payments to the aforementioned vendors and attempt to collect any identified overpayments.

AUDIT TEAM

**Brian S. Tanen, CPA, CFE**  
Audit Manager

**Carlton A. Sexton**  
Senior Auditor