

Audit Report

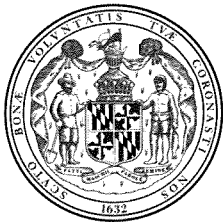
**Regional Institute for Children and Adolescents
Baltimore**

June 2014



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

June 30, 2014

Thomas J. Barnickel III, CPA
Legislative Auditor

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Delegate Guy J. Guzzone, 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 – Baltimore (RICA) of the Department of Health and Mental Hygiene (DHMH) for the period beginning March 22, 2011 and ending March 23, 2014. RICA provides mental health and educational services to adolescents from the Central Maryland Region, the Eastern Shore, and parts of Western Maryland.

Our audit disclosed that cash receipts were not always deposited timely. Also, food purchases for RICA's dietary operations were procured without considering availability and pricing from Department of General Services' approved statewide contracts, as required by State procurement regulations.

DHMH's response to this audit, on behalf of RICA, 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.

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Regional Institute for Children and Adolescents – Baltimore (RICA) is a mental health residential treatment facility of the Department of Health and Mental Hygiene. RICA serves adolescents and their families from the Central Maryland region, the Eastern Shore, and parts of Western Maryland. The services provided include inpatient and outpatient treatment, education services, and community service programs. RICA is licensed to treat a maximum of 45 inpatients. During fiscal year 2013, it had a daily average of 36 inpatients and 55 outpatients under treatment. According to the State's records, RICA's expenditures totaled approximately \$12.9 million during fiscal year 2013.

Status of Finding From Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated December 2, 2011. We determined that RICA satisfactorily addressed the finding.

Findings and Recommendations

Cash Receipts

Finding 1

Cash receipts were not always deposited timely.

Analysis

RICA did not always deposit cash receipts, which totaled approximately \$1.8 million during fiscal year 2013, in a timely manner. The majority of these receipts are received in check form from local jurisdictions for educational services provided to adolescents from the related jurisdictions. Our test of 44 checks totaling approximately \$912,000, received during fiscal years 2013 and 2014, disclosed 30 checks totaling approximately \$484,000 were deposited from two to ten business days after the receipt date.

The Comptroller of Maryland's *Accounting Procedures Manual* requires that cash receipts be deposited no later than one business day after the date of receipt. Since the majority of these collections are from local jurisdictions for educational

services provided, the processing of cash receipts could be enhanced by requiring the jurisdictions to use electronic funds transfer.

Recommendation 1

We recommend that RICA

- a. ensure that all cash receipts are deposited in a timely manner, as required; and**
- b. pursue the use of electronic funds transfer for payments from local jurisdictions.**

Procurement

Finding 2

RICA did not comply with State procurement regulations when purchasing dietary items.

Analysis

RICA purchased dietary items directly from one vendor without considering availability and pricing from Department of General Services' approved statewide contracts as required under State procurement regulations. Our test of 12 disbursements made during the period from fiscal year 2012 through fiscal year 2014 (as of January), totaling approximately \$150,000, disclosed two disbursements for dietary items to the same vendor totaling \$27,370 for which RICA did not have a contract. Upon inquiry, we were advised that this vendor was routinely used for purchases of dietary items without considering the availability of a statewide contract or obtaining competitive bids. Consequently, there is a lack of assurance that the State obtained these items at the lowest cost. For example, our review of items purchased totaling \$596, disclosed that the same items and quantities could have been purchased using a statewide contract at a savings of 19 percent. RICA purchased the vast majority of its dietary items from the aforementioned vendor. During the period from fiscal year 2012 through fiscal year 2014 (as of January), payments to this vendor totaled approximately \$211,000.

State procurement regulations generally specify that statewide contracts be used when available for commodity purchases. In the absence of a statewide contract, State procurement regulations also generally specify that contracts in excess of \$25,000 shall be awarded by competitive sealed bidding, and that procurements exceeding \$5,000 must also have written contracts.

Recommendation 2

We recommend that RICA comply with State procurement regulations with respect to using statewide contracts and, in the absence of a statewide contract, ensuring procurements are properly solicited and documented.

Audit Scope, Objectives, and Methodology

We have audited the Regional Institute for Children and Adolescents – Baltimore (RICA) of the Department of Health and Mental Hygiene (DHMH) for the period beginning March 22, 2011 and ending March 23, 2014. 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's financial transactions, records and internal controls, 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 cash receipts, procurements and disbursements, working funds, and payroll. We also determined the status of the finding included in our preceding audit report.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of RICA's operations, and tests of transactions. 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), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). 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 various sources were sufficiently reliable for the purposes the data were used during the 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.

RICA'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 the 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.

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

The response from DHMH, on behalf of RICA, 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 DHMH regarding the results of our review of its response.

APPENDIX



STATE OF MARYLAND

DHMH

Maryland Department of Health and Mental Hygiene

201 W. Preston Street • Baltimore, Maryland 21201

Martin O'Malley, Governor – Anthony G. Brown, Lt. Governor – Joshua M. Sharfstein, M.D., Secretary

June 26, 2014

Mr. Thomas J. Barnickel III, CPA
Legislative Auditor
Office of Legislative Audits
301 West Preston Street
Baltimore, MD 21201

Dear Mr. Barnickel:

Thank you for your letter regarding the draft audit report for the Regional Institute for Children and Adolescents – Baltimore for the period beginning March 22, 2011 and ending March 23, 2014. Enclosed you will find the Department's response and plan of correction that addresses each audit recommendation.

I will work with the appropriate administration directors, programs directors, and deputy secretary to promptly address the audit exceptions. In addition, the OIG's 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,

Joshua M. Sharfstein, M.D.
Secretary

cc: Gayle M. Jordan-Randolph, M.D., Deputy Secretary for Behavioral Health and Disabilities, DHMH
Rianna P. Matthews-Brown, J.D., Chief of Staff, Behavioral Health and Disabilities, DHMH
Brian M. Hepburn, M.D., Executive Director, Mental Hygiene Administration, DHMH
Ms. Mary R. Sheperd, Deputy Director, Hospitals and Adolescent Residential Treatment, MHA, DHMH
Ms. Penny Makris, Chief Executive Officer, RICA-Baltimore
Patrick Dooley, Chief of Staff, DHMH
Thomas V. Russell, Inspector General, DHMH
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Web Site: www.dhmh.state.md.us

RICA-Baltimore
Legislative Audit
March 22, 2011 to March 23, 2014

Cash Receipts

Finding 1

Cash receipts were not always deposited timely.

Recommendation 1

We recommend that RICA

- a. ensure that all cash receipts are deposited in a timely manner, as required; and**
- b. pursue the use of electronic funds transfer for payments from local jurisdictions.**

Administration's Response

The Agency concurs with the finding and recommendations.

- a. Effective immediately, all cash receipts will be deposited after the day of receipt, no later than the first working day, or at least weekly whenever receipts accumulate to \$500, according to the guidelines of the State Comptroller's Accounting Procedures Manual.
- b. Effective immediately, the agency's fiscal officer will pursue the use of electronic funds transfer for payments from local jurisdictions in accordance with the General Accounting Division's Accounting Procedures Manual.

Procurement

Finding 2

RICA did not comply with State procurement regulations when purchasing dietary items.

Recommendation 2

We recommend that RICA comply with State procurement regulations with respect to using statewide contracts, and, in the absence of a statewide contract, ensuring procurements are properly solicited and documented.

Administration's Response

The Agency concurs with the finding and recommendation. Effective immediately, the Agency's procurement officer will ensure that all procurement regulations are properly documented and solicited as required. The Agency's procurement officer will procure dietary items utilizing statewide contracts when applicable. All Category III solicitations will be posted to eMaryland Marketplace; and contracts in excess of \$25,000 will be awarded by competitive sealed bidding, as required by State Procurement regulations.

AUDIT TEAM

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Lisa M. DeCarlo
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