

Audit Report

**Maryland Department of Health
Regional Institute for Children and Adolescents
Baltimore**

January 2018



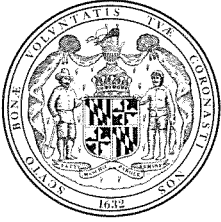
**OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY**

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
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Thomas J. Barnickel III, CPA
Legislative Auditor

January 5, 2018

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee
Delegate C. William Frick, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

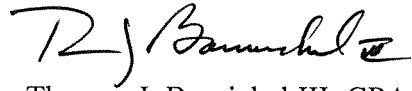
We have conducted a fiscal compliance audit of the Regional Institute for Children and Adolescents – Baltimore (RICA) of the Maryland Department of Health (MDH) for the period beginning March 24, 2014 and ending May 14, 2017. RICA provides mental health and educational services to adolescents from counties throughout the State of Maryland and Baltimore City.

Our audit disclosed that RICA did not use an admission team to make student residency admission determinations as required by State regulations. Rather, admission decisions were made primarily by one management employee. Additionally, certain admission documentation was not maintained to support the timeliness of admission decisions.

Our audit also disclosed that there was a lack of segregation in duties in the cash receipt process and between receipt and accounts receivable duties. Furthermore, we found that certain educational services were not subject to a competitive procurement and that the review and approval of some vendors' invoices was not adequate to ensure that all services billed were provided and that prices were correct. Finally, for the fiscal year-ended June 30, 2015, RICA did not report approximately \$700,000 in unprovided for payables as required by the Comptroller of Maryland – General Accounting Division.

MDH'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,

A handwritten signature in black ink, appearing to read "T. J. Barnickel III". The signature is written in a cursive style with a prominent initial "T" and a stylized "J".

Thomas J. Barnickel III, CPA
Legislative Auditor

Table of Contents

Background Information	4
Agency Responsibilities	4
Status of Findings From Preceding Audit Report	4
Findings and Recommendations	5
Admissions	
Finding 1 – The Regional Institute for Children and Adolescents – Baltimore (RICA) did not maintain an admission team to make admission determinations as required by State regulations, and certain critical documentation was not maintained.	5
Cash Receipts	
Finding 2 – There was a lack of segregation of duties in collection processing and accounts receivable record keeping.	6
Contractual Services	
* Finding 3 – RICA did not use a competitive procurement process for certain services, as required.	8
Finding 4 – RICA did not have a process to ensure that all vendor amounts billed agreed to the related contractual terms and conditions.	8
Budgetary Transactions	
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.	10
Audit Scope, Objectives, and Methodology	11
Agency Response	Appendix

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

Background Information

Agency Responsibilities

The Regional Institute for Children and Adolescents – Baltimore (RICA) is a residential and day treatment center that provides mental health treatment, educational and rehabilitative services to children and adolescents and their families from counties throughout the State of Maryland and Baltimore City. The services provided include inpatient and outpatient treatment. In fiscal year 2016, RICA provided housing for an average daily population of 36 residential students and provided treatment for an average daily population of 55 outpatient students. According to State records, RICA's expenditures for fiscal year 2016 totaled approximately \$14.2 million.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the two findings contained in our preceding fiscal compliance audit report dated June 30, 2014. We determined that RICA satisfactorily addressed one of the findings. The remaining finding is repeated in this report.

Findings and Recommendations

Admissions

Background

The Regional Institute for Children and Adolescents – Baltimore (RICA) offers two options to admit eligible children and adolescents: a school-only program and a full-time residential treatment program, which includes an educational component. The residential program assists youth throughout the State. Educational services are provided by staff from a local school system under a memorandum of understanding with RICA, which reimburses the system for the related salaries and other costs. Referring agencies may include the child’s school system, the Maryland Departments of Juvenile Services, Health, or Human Services, other public or private agencies, and mental health professionals.

After receiving a referral for its residential program, RICA fills out an internally developed “referral face sheet” for the potential students that documents demographical information and is used to begin the process of gathering additional documentation, such as psychological evaluations. The information gathered is used by RICA to pre-screen the referral to assess if the placement would be appropriate. If a determination is made that the referral may be appropriate, RICA will schedule a pre-admission interview with the prospective student and that student’s parent(s) or guardian(s). Subsequently, RICA will make a decision to accept or decline the student based on admission criteria established in State regulations.

According to State regulations, RICA has 10 business days to accept or reject the student after the application is completed. Regulations require RICA to notify both the referring agency and the youth’s guardian of its determination decision. According to its records, RICA approved admissions for 44 referrals during fiscal year 2016.

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.

Analysis

RICA admitted students within its residential program without the approval of an admission team as required by State regulations. In addition, RICA did not consistently document certain important dates in the admission process such as approval date.

- RICA did not utilize an admissions team to make student residency admission decisions. Instead, RICA relied primarily on the approval of one management employee who is a licensed certified social worker-clinical. State regulations require an admission team consisting of a physician, mental health and educational professional and other persons, as appropriate, to determine whether the applicant meets the State-established admission standards, such as the individual has a long-term and severe mental disorder. Our testing of a selection of admission decisions – both acceptances and rejections – showed that RICA had made those admission decisions in accordance with the criteria established in State regulations.
- RICA did not consistently document certain important dates in the admission process such as approval date and the date when all referral information required by State regulations had been received. Our review of ten referrals that resulted in admission determinations during the period from August 2015 to September 2016 found that for seven, the referral completion date and/or the date of the admission decision was not documented. For two of the seven we were able to use other means to determine that the admission decisions were made timely, while for five we could not assess if the determination decision was rendered within 10 days as required.

Recommendation 1

We recommend that RICA

- a. ensure that student residency admission determinations are made by an admissions team as required by State regulations, and**
- b. ensure that all critical dates are documented and monitored.**

Cash Receipts

Finding 2

There was a lack of segregation of duties in collection processing and accounts receivable recordkeeping.

Analysis

Controls were inadequate over collection processing and accounts receivable recordkeeping, as one employee was responsible for virtually all the related processes. According to State accounting records, collections, consisting of checks, totaled approximately \$2.2 million during fiscal year 2016 and primarily related to payments from applicable local jurisdictions for educational services provided by RICA to students from the respective jurisdictions.

Although collections were recorded on pre-numbered receipt forms and restrictively endorsed immediately upon receipt, the responsibility for additional processing rested with one employee. Specifically, after recordation and endorsement, the collections were given directly to an employee who was responsible for depositing the funds and performing the deposit verification. In addition, this employee also prepared the invoices to local jurisdictions (related to the collections) and recorded the related payments in the accounts receivable records; both without any independent review. Consequently, this employee had complete control over the collections. In addition, we noted that there was no formal documented accounting for pre-numbered receipt forms (as to issued, voided, and on-hand). Under these conditions, errors or other discrepancies could occur without timely detection.

The Comptroller of Maryland's *Accounting Procedures Manual* requires the establishment of sufficient internal controls over collections, including adequate separation of cash receipt handling duties from the accounts receivable records; independent verification of collections to deposit; and an accounting for the numerical sequence of pre-numbered receipts forms as to issued, voided, and on hand.

Since the majority of these collections are from local jurisdictions for educational services provided, the controls could be strengthened by requiring the jurisdictions to use electronic funds transfer.

Recommendation 2

We recommend that RICA

- a. ensure the employee responsible for the maintenance of accounts receivable records does not have access to the related collections;**
- b. ensure that an employee independent of the cash receipts handling functions verifies the deposit of all collections;**
- c. formally account for receipt forms as to issued, voided, and on hand; and**
- d. pursue the use of electronic funds transfer for payments from local jurisdictions.**

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

Contractual Services

Finding 3

RICA did not use a competitive procurement process for certain services, as required.

Analysis

RICA did not use a competitive procurement process for certain services, as required by State procurement regulations. From our test of 11 invoices totaling \$123,250, we identified one contract that was not competitively procured. Specifically, during the period May 2014 through May 2017, RICA repeatedly obtained educational services from one vendor, totaling approximately \$230,000, without any justification for the continued use of the vendor. RICA entered into a one-year agreement in May 2014 with the vendor that included automatic one-year renewals (there was no maximum dollar amount included in the agreement or the renewals); however, RICA did not conduct any competitive bidding although our review found two other vendors were providing similar services. During the aforementioned period, these services were procured through 19 separate purchases from this vendor ranging in amounts from \$5,000 to \$25,000.

A similar condition regarding the need to comply with State procurement regulations was commented upon in our preceding audit report. State procurement regulations require that contracts for goods or services of \$5,000 or more be awarded based on competitive bidding and require Board of Public Works (BPW) approval for service contracts valued at \$200,000 or greater.

Recommendation 3

We recommend that RICA

- a. comply with State procurement regulations and ensure procurements are properly solicited and documented (repeat), and**
- b. retroactively submit the educational services contract to the BPW for approval.**

Finding 4

RICA did not have a process to ensure that all vendor amounts billed agreed to the related contractual terms and conditions.

Analysis

RICA's process for approving certain contractor invoices did not include a verification that all billed costs were in accordance with contract terms and conditions. During our audit, we identified two education-related service

vendors, whose invoices were not subject to adequate review to ensure the propriety of the billings.

- RICA did not review appropriate supporting documentation when approving invoices from a local education agency (LEA) that provided teachers and instructional assistants to RICA under a memorandum of understanding (MOU). Specifically, a RICA employee tracked the LEA's employees' time worked and when leave was taken (including leave without pay, for which RICA was not financially responsible), which was forwarded to the LEA. From this document, the LEA invoiced RICA the salary costs for each LEA employee for that pay period. However, the RICA employee responsible for approving the LEA invoice did not have access to the original RICA-maintained time records and thus could not ensure the propriety of the hours RICA was billed for. Furthermore, LEA employees' pay scales were not included in the MOU or otherwise provided to RICA. RICA also paid a two percent administrative fee associated with services provided under this MOU, which totaled approximately \$38,000 in fiscal year 2016, even though the fee was not specified in the MOU. All payments to this LEA totaled approximately \$2 million during fiscal year 2016.
- RICA obtained additional educational services from a non-LEA, valued at \$230,000 during the period of May 2014 to May 2017 (see Finding 3). However, the RICA employee responsible for approving the related invoices did not have a copy of the rates established in the contractual agreement. In fact, RICA could not locate a copy of the agreement and after one was obtained, at our request, we did note that the vendor periodically billed rates that differed from the rate specified in the agreement (although the billed rates were less than the rate in the agreement).

Recommendation 4

We recommend that RICA establish a process to ensure that employees approving invoices have all appropriate supporting documentation necessary to determine the propriety of the related billings in accordance with the contracts terms and conditions and ensure those documents are used during the approval process.

Budgetary Transactions

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.

Analysis

RICA did not report unprovided for payables to the Comptroller of Maryland – General Accounting Division (GAD) totaling \$700,000 during the fiscal year 2015 closeout process, as required by GAD procedures. At the 2015 fiscal year-end, RICA had outstanding invoices on hand relating to services that had been provided to RICA between January and June 2015 that exceeded its available appropriation. Consequently, RICA paid these invoices with funds from their fiscal year 2016 appropriation, but did not report these unprovided for payables to GAD as part of the fiscal year 2015 closeout process. The fiscal year-end closing instructions issued by GAD require a schedule to be completed when accounts payable and accrued expenditures were not recorded in accordance with the *State Policy on Accounts Payable, Accrued Expenditures, and Encumbrances*.

Recommendation 5

We recommend that, in the future, RICA report fiscal year-end unprovided for payables to GAD, as required.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Regional Institute for Children and Adolescents – Baltimore (RICA) of the Maryland Department of Health (MDH), for the period beginning March 24, 2014 and ending May 14, 2017. 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 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 admissions, procurements and disbursements, and payroll. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include certain support services provided to RICA by MDH. These support services (such as certain payroll and purchasing functions, maintenance of accounting records, and related fiscal functions) are included within the scope of our audit of MDH's Office of the Secretary and Other Units.

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. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests 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.

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 safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

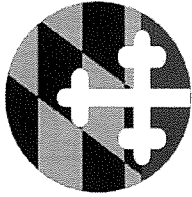
Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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's 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 RICA that did not warrant inclusion in this report.

The response from MDH, 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 MDH regarding the results of our review of its response.

APPENDIX



MARYLAND
Department of Health

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

December 22, 2017

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

Dear Mr. Barnickel,

Thank you for your letter regarding the draft audit report on the Regional Institute for Children and Adults (RICA) - Baltimore for the period beginning March 24, 2014 and ending May 14, 2017. Enclosed is the Department's response and plan of correction that addresses each audit recommendation. I will work with the appropriate Deputy Secretary to promptly address all audit exceptions. In addition, the OIG's Division of Audits will follow-up on the recommendations and responses to ensure compliance.

If you have any questions or require additional information, please do not hesitate to contact me at 410-767-4639 or Susan R. Steinberg, Acting Inspector General, at 410-767-6039.

Sincerely,

A handwritten signature in cursive script that reads "Dennis R. Schrader".

Dennis R. Schrader
Secretary

Enclosure

cc: J. David Lashar, Chief of Staff
Susan R. Steinberg, Acting Inspector General, MDH

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.

Recommendation 1

We recommend that RICA

- a. ensure that student residency admission determinations are made by an admissions team as required by State regulations, and**
- b. ensure that all critical dates are documented and monitored.**

RICA's response

- a. RICA concurs with the recommendation. Effective September 2017, all student residency admission determinations will be made by an Admissions Team consisting of the Director of Admissions; Clinical Director or designee; IEP Coordinator or designee; Medical Director/Psychiatrist; and the Director of Nursing or designee.
- b. RICA concurs with the recommendation. Effective September 2017, the referral face sheet has been amended to account for all required application documents including critical dates and will be monitored and maintained by the Director of Admissions.

Cash Receipts

Finding 2

There was a lack of segregation of duties in collection processing and accounts receivable recordkeeping.

Recommendation 2

We recommend that RICA

- a. ensure the employee responsible for the maintenance of accounts receivable records does not have access to the related collections;**
- b. ensure that an employee independent of the cash receipts handling functions verifies the deposit of all collections;**
- c. formally account for receipt forms as to issued, voided, and on hand; and**
- d. pursue the use of electronic funds transfer for payments from local jurisdictions.**

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

RICA's response

- a. RICA concurs with the recommendation. Effective immediately the Assistant to the CEO will receive, endorse and record all cash receipts in pre-numbered receipt books; the Fiscal Services Technician will prepare and process the deposits; the Accounts Payable Technician will maintain the accounts receivable records.
- b. RICA concurs with the recommendation. Effective immediately all cash receipt deposits will be verified by the Chief of Fiscal Services.
- c. RICA concurs with the recommendation. Effective immediately all accounting for receipt forms will be conducted by the Accounts Payable Technician.
- d. RICA concurs with the recommendation. Effective immediately RICA will pursue the use of electronic transfer for local jurisdictions for payments.

Contractual Services

Finding 3

RICA did not use a competitive procurement process for certain services, as required.

Recommendation 3

We recommend that RICA

- a. comply with State procurement regulations and ensure procurements are properly solicited and documented (repeat), and**
- b. retroactively submit the educational services contract to the BPW for approval.**

RICA's response

- a. RICA concurs with the recommendation. Effective immediately RICA will comply with all State procurement regulations and ensure procurements are properly solicited and documented.
- b. RICA concurs with the recommendation. RICA will retroactively submit the educational services contract to the BPW for approval.

Finding 4

RICA did not have a process to ensure that all vendor amounts billed agreed to the related contractual terms and conditions.

Recommendation 4

We recommend that RICA establish a process to ensure that employees approving invoices have all appropriate supporting documentation necessary to determine the propriety of the related billings in accordance with the contracts terms and conditions and ensure those documents are used during the approval process.

RICA's response

RICA concurs with the recommendation. Effective immediately employees responsible for approving all contract/vendor payments will obtain, verify and maintain all necessary documents proper to submission to Accounts Payable for payment process.

Budgetary Transactions

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.

Recommendation 5

We recommend that, in the future, RICA report fiscal year-end unprovided for payables to GAD, as required.

RICA's response

RICA concurs with the recommendation. Effective immediately all fiscal year-end unfunded liabilities will be reported to GAD on the required schedule in accordance with State Policy.

AUDIT TEAM

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Audit Manager

Jessica A. Cacho, CPA, CFE
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