This report and any related follow-up correspondence are available to the public. Alternate formats may also be requested by contacting the **Office of Legislative Audits** as indicated at the bottom of the next page or through the Maryland Relay Service at 1-800-735-2258.

Please address specific inquiries regarding this report to the Audit Manager listed on the inside back cover by telephone at **(410) 946-5900**.

Electronic copies of our audit reports can be viewed or downloaded from the Internet via [http://www.ola.state.md.us](http://www.ola.state.md.us).

The Department of Legislative Services – Office of the Executive Director, 90 State Circle, Annapolis, Maryland 21401 can also assist you in obtaining copies of our reports and related correspondence. The Department may be contacted by telephone at (410) 946-5400 or (301) 970-5400.
December 4, 2002

Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee  
Delegate Samuel I. Rosenberg, Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the John L. Gildner Regional Institute for Children and Adolescents for the period beginning March 14, 2000 and ending July 17, 2002.

Our audit disclosed that the Institute had not procured certain services in accordance with State procurement regulations. Also, adequate controls were not in place to ensure that cash collections were subsequently deposited.

Respectfully submitted,

Bruce A. Myers, CPA  
Legislative Auditor
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* Denotes item repeated in full or part from preceding audit report.
Background Information

Name Change

On May 9, 2001, the Board of Public Works authorized changing the name of the Regional Institute for Children and Adolescents - Montgomery County to the John L. Gildner Regional Institute for Children and Adolescents in memory of John L. Gildner who served as the Chief Executive Officer of the Institute from 1979 to 1999.

Agency Responsibilities

The John L. Gildner Regional Institute for Children and Adolescents provides mental health and educational services to emotionally disturbed children and adolescents mainly from Montgomery, Carroll, Frederick, Howard, Prince George’s and Washington Counties. The services provided include inpatient and outpatient treatment. The Institute is licensed to treat a maximum of 80 inpatients. During fiscal year 2002, the Institute had an average of 65 inpatients and 70 outpatients under treatment on a daily basis. In addition, the Institute is responsible for the dietary program for the Noyes Children’s Center (a unit of the Department of Juvenile Justice).

Current Status of Findings From Preceding Audit Report

Our audit included a review to determine the current status of the five fiscal/compliance findings contained in our preceding audit report dated July 14, 2000. We determined that the Institute satisfactorily addressed four of these items. The remaining finding is repeated in this report.
Findings and Recommendations

Procurement

Finding 1
The Institute’s procurement practices did not always comply with State Procurement Regulations.

Analysis
The Institute did not always follow required procurement procedures and, therefore, lacked assurance that the best possible prices were obtained for certain services. Specifically, the Institute lacked documentation to substantiate that four contracts totaling approximately $38,000 had been competitively bid. A similar deficiency was commented upon in our preceding audit report. In addition, purchase orders for two of these contracts, for which services exceeded $10,000 each, were split into multiple purchase orders of less than $10,000 each. As a result, these purchases were subject to less stringent procurement requirements.

State Procurement Regulations require that at least two bids be obtained for procurements over $2,500 and prohibit procurements from being intentionally split to circumvent procurement requirements.

Recommendation 1
We again recommend that the Institute strictly comply with the provisions of the State Procurement Regulations.

Cash Receipts

Finding 2
Adequate controls were not established over cash receipts.

Analysis
The Institute had not established adequate internal controls over cash receipts. Although cash collections were initially recorded on either prenumbered receipt forms or a cash receipt log, independent verifications were not performed to ensure that amounts recorded on the receipt forms and the log were subsequently deposited. In addition, the prenumbered receipt forms were not periodically accounted for as to issued, voided or on hand. During fiscal year 2002, the Institute’s cash receipts totaled approximately $45,400.
Recommendation 2
We recommend that an employee independent of the cash receipts function verify that all collections recorded on the prenumbered receipt forms and cash receipts log were deposited. We also recommend that this employee periodically account for the prenumbered receipt forms as to issued, voided and on hand. We advised the Institute on accomplishing the necessary separation of duties using existing personnel.
Audit Scope, Objectives and Methodology

We have audited the John L. Gildner Regional Institute for Children and Adolescents for the period beginning March 14, 2000 and ending July 17, 2002. The audit was conducted in accordance with generally accepted government auditing standards.

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 Institute’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, inspection of documents and records, and observation of the Institute’s operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives.

The Institute’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 the Institute’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.

The Department of Health and Mental Hygiene’s response, on behalf of the Institute, 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
Maryland Department of Health and Mental Hygiene
201 W. Preston Street • Baltimore, Maryland 21201
Parris N. Glendening, Governor - Georges C. Benjamin, M.D., Secretary

December 4, 2002

Bruce A. Myers, CPA
Legislative Auditor
Office of Legislative Audits
Room 1202
301 West Preston Street
Baltimore MD 21201

Dear Mr. Myers:

This letter is in response to your November 15, 2002 letter that included the draft audit report for the John L. Gildner Regional Institute for Children and Adolescents for the period beginning March 14, 2000 and ending July 17, 2002. Attached you will find the Department’s 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, our 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) 767-6505 or Larry Triplett of my staff at (410) 767-5228.

Sincerely,

Georges C. Benjamin, M.D.
Secretary

Attachment

cc: Mr. Thomas E. Pukalski, Chief Executive Officer, John L. Gildner RICA, DHMH
Ms. Arlene Stephenson, Deputy Secretary of Public Health Services, DHMH
Brian M. Hepburn, M.D., Interim Director, MHA, DHMH
Mr. Lawrence P. Triplett, Inspector General, DHMH

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Web Site: www.dhmh.state.md.us
Finding #1

The Institute’s Procurement practices did not always comply with State Procurement Regulations.

Recommendation

We again recommend that the Institute strictly comply with the provisions of the State Procurement Regulations.

John L. Gildner RICA’s Response

The Institute concurs with the Audit’s recommendation. The Institute has advised all departments needing bids for projects in excess of $2,500 to send all project information to the Procurement Officer. The Procurement Officer will work directly with the departments in obtaining and reviewing the bids to make sure that every procurement is in compliance with the provisions of the State Procurement Regulations. The Procurement Officer will maintain the files on all projects going through the bidding process to ensure adequate documentation.

Finding #2

Adequate controls were not established over cash receipts

Recommendation

We recommend that an employee independent of the cash receipts function verify that all collections recorded on the pre-numbered receipt forms and cash receipts log were deposited. We also recommend that this employee periodically account for the pre-numbered receipts forms as to issued voided and on-hand. We advise the Institute on accomplishing the necessary separation of duties using existing personnel.

John L. Gildner RICA’s Response

The Institute concurs with Audit’s recommendation. Effective October 1, 2002, the Chief of Fiscal Services, who is independent of the cash receipts functions, began verifying all cash receipts recorded on pre-numbered receipt forms and cash receipts log were deposited. The Chief of Fiscal Services will also perform a periodic accounting for the pre-numbered receipt forms as to issued, voided and on-hand, and maintain documentation of this review.
AUDIT TEAM

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