

Audit Report

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**Maryland School for the Deaf**

April 2009

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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

April 3, 2009

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

Ladies and Gentlemen:

We have audited the Maryland School for the Deaf (MSD) for the period beginning December 1, 2005 and ending December 1, 2008. MSD provides a comprehensive educational program for school-age deaf students.

Our audit disclosed that MSD did not always procure goods and services in accordance with State procurement regulations. For example, we noted instances of purchases that were apparently split to bypass the necessity for control agency approvals, as well as the failure to follow competitive procurement practices, when indicated. We also determined that MSD satisfactorily addressed the three findings contained in our preceding audit report dated June 26, 2006.

MSD's response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by MSD.

Respectfully submitted,

Bruce A. Myers, CPA  
Legislative Auditor



## **Background Information**

### **Agency Responsibilities**

The Maryland School for the Deaf (MSD) provides a comprehensive educational program for school-age deaf students. Tuition is charged only to non-State residents. MSD also provides a family education/early intervention program, through cooperative agreements with local health departments, that involves working with young deaf children and their families in the development of early language skills. MSD, with campuses located in Frederick and Columbia, is governed by a 19-member Board of Trustees appointed by the Governor. According to MSD records, as of January 2008, 460 students were enrolled in MSD, and the State's records indicated that expenditures totaled approximately \$30.1 million during fiscal year 2008.

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

Our audit included a review to determine the status of the three findings contained in our preceding audit report dated June 26, 2006. We determined that MSD satisfactorily addressed these findings.

## **Findings and Recommendations**

### **Procurement**

#### **Finding 1**

**Procurements of goods and services were not always made in accordance with State Procurement Regulations.**

#### **Analysis**

The Maryland School for the Deaf (MSD) did not always procure goods and services in accordance with State Procurement Regulations. We tested procurements and expenditures and noted the following conditions:

- Our test of procurements made during calendar years 2006, 2007, and 2008 from six vendors totaling approximately \$442,500 disclosed that MSD appeared to artificially split procurements from three vendors totaling approximately \$218,100 in order to bypass applicable control entity approval required for procurements valued at \$25,000 or more. For example, for one vendor, MSD processed four separate purchase orders totaling approximately

\$49,000 for the purchase of computer wiring services; three of the four purchase orders were processed on the same day and the other purchase order was processed less than a month later. Additionally, for another vendor, MSD processed four separate purchase orders totaling approximately \$62,900 for the purchase of computers and related equipment. Again, three of the four purchase orders were processed on the same day and the other purchase order was processed less than a month later.

- Our test of payments totaling approximately \$463,800 made during fiscal years 2006 through 2009 to 21 vendors disclosed that, for payments totaling approximately \$186,000 to 7 vendors, MSD lacked documentation of its solicitation of competitive bids. For example, MSD awarded annual laundry service contracts to the same vendor for each of fiscal years 2007, 2008, and 2009 without obtaining competitive bids. During our audit period, payments to this vendor for laundry services totaled approximately \$62,200.
- From the aforementioned test of procurements from six vendors, we identified 15 procurements of information technology equipment totaling \$232,100 from three vendors for which MSD did not competitively bid and did not consider using available statewide contracts (which include various discounts) to help ensure that goods and services were procured at the best prices to the State. Although MSD procured these goods from vendors participating in a statewide contract, statewide contract pricing was not used and MSD could not document if it obtained the information technology equipment at lower or equivalent prices to those in the statewide contract.

State Procurement Regulations require approval from the Department of General Services for procurements of goods valued at \$25,000 or more and from the Department of Budget and Management for procurements of services valued at \$25,000 or more. These Regulations also prohibit procurements from being intentionally split to circumvent procurement requirements. In addition, the Regulations generally require that all procurements over \$2,500 be competitively bid with documentation of bid solicitation and be supported by written contracts and/or purchase orders. Finally, State agencies are encouraged to use available statewide contracts to procure goods and services, when applicable.

### **Recommendation 1**

**We recommend that MSD comply with State Procurement Regulations by**

- a. not artificially splitting procurements to circumvent required approvals,**
- b. conducting and documenting competitive procurements, and**
- c. using statewide contracts to ensure that information technology equipment and services are obtained at the best price to the State.**

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

We have audited the Maryland School for the Deaf (MSD) for the period beginning December 1, 2005 and ending December 1, 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 the MSD'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 the MSD's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

MSD'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.

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 MSD's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. This report does include a finding regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to MSD that did not warrant inclusion in this report.

MSD's response 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 MSD regarding the results of our review of its response.

APPENDIX



March 31, 2009

Mr. Bruce A. Myers, CPA  
Legislative Auditor  
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Office of Legislative Audits  
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Baltimore, Maryland 21201

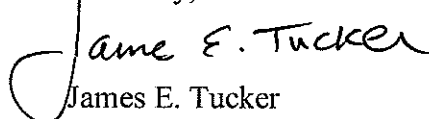
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Dear Mr. Myers:

Enclosed please find the School's responses to the Legislative Auditor's report for the period December 1, 2005 and ending December 1, 2008. If you have any questions please contact Suzanne Schwertman at 301-360-2010.

Sincerely,

  
James E. Tucker  
Superintendent

◆  
Cc: Barbara Raimondo, Esquire  
Suzanne Schwertman

*Frederick Campus  
Established 1868*

*Columbia Campus  
Established 1973*

◆  
The Maryland School for the Deaf, a Maryland State Agency, does not discriminate on the basis of race, color, sex, age, national origin, religion, or disability in matters affecting programs, activities, or employment practices

Maryland School for the Deaf  
Response to Legislative Audit Report  
December 1, 2005 to December 1, 2008

**Finding 1**  
**Procurement**

Procurement of goods and services were not always made in accordance with State Procurement Regulations.

MSD concurs that procurement problems existed during the audit period. The School had turnover in the procurement department and had significant periods of time without a procurement officer. With a small fiscal staff, employees did their best to procure supplies and services to maintain a quality educational program while performing job duties beyond their normal scope of work. In addition, training does not exist for Maryland State procurement processes for employees new to the system. The School will strive towards bringing its procurement department to a quality level.

However, MSD takes exception to the analysis of the laundry service example. The School believed it was in compliance of the Maryland Annotated Code §14-103(3)(i) regarding *Preferences to Benefit Disadvantaged Individuals* by awarding the contract to a sheltered workshop located across the street from the Frederick Campus. Upon discussion with the legislative auditors it was determined that the School's interpretation of the law was incorrect and the School will obtain bids in the future.

AUDIT TEAM

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