

Audit Report

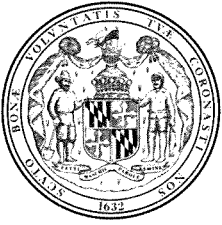
**Regional Institute for Children and Adolescents
Baltimore**

December 2011



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

Bruce A. Myers, CPA
Legislative Auditor

December 2, 2011

Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

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 July 1, 2008 and ending March 21, 2011. RICA provides mental health and educational services to emotionally disabled adolescents, primarily from Baltimore City, and Anne Arundel and Baltimore Counties.

Our audit disclosed that formal written agreements had not been executed between RICA and the two local education agencies (LEAs) that provided educational staff, nor with LEAs and State entities whose students received educational services. RICA received contributions from some of these entities for these services. Accordingly, the responsibilities of all parties, including financial responsibilities, were not formally established.

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 our audit by RICA.

Respectfully submitted,

A handwritten signature in black ink that reads 'Bruce A. Myers'.

Bruce A. Myers, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Regional Institute for Children and Adolescents – Baltimore (RICA) of the Department of Health and Mental Hygiene provides mental health treatment and educational services to emotionally disabled adolescents, primarily from Baltimore City, and Anne Arundel and Baltimore Counties. RICA is licensed to treat a maximum of 45 inpatients. During fiscal year 2011, it had a daily average of 37 inpatients and 55 outpatients under treatment. According to the State’s accounting records, RICA’s fiscal year 2011 expenditures totaled approximately \$12 million.

Findings and Recommendations

Educational Services

Finding 1

Formal agreements had not been executed with local education agencies (LEAs) that provided educational staff to RICA, and with LEAs and State entities whose students received educational services from RICA.

Analysis

Formal written agreements had not been executed between RICA and local education agencies (LEAs) that provided educational staff to RICA, and with LEAs and State entities (such as the Department of Juvenile Services) whose students received educational services from RICA. As a result, the responsibilities of all parties, including financial responsibilities, were not formally established.

During fiscal year 2010, one LEA provided RICA with approximately 25 of RICA’s 43 full-time educational staff, at a cost to RICA of approximately \$1.7 million. Another LEA provided six teachers at no cost to RICA. However, there were no formal written agreements between RICA and these two LEAs defining responsibilities. Agreements should be in place to clarify responsibilities, such as monitoring and oversight, as well as financial aspects, such as services to be provided and applicable rates.

During fiscal year 2010, RICA received approximately \$1.6 million in contributions from State and local entities whose students attended RICA.

However, there were no written agreements between RICA and the LEAs and State entities addressing contribution rates per student. The contributions were generally based on a daily rate computed by RICA on an annual basis, based on its estimated costs. The aforementioned LEA that provided six teachers at no cost to RICA sent 13 nonresidential students to RICA and did not make any student contributions. As of March 2011, there were approximately 39 residential adolescents and 41 non-residential adolescents receiving educational services at RICA.

The State Procurement Regulations do not govern contractual arrangements between governmental units (such as the State and the LEAs). Nevertheless, agreements should be executed to ensure the commitments and responsibilities are defined and mutually agreeable to the parties. Also, State law specifies that the State may not bill LEAs for any services provided by the State at a RICA facility; however, the law states that the LEAs may make a contribution toward the cost of the services provided at those facilities.

Recommendation 1

We recommend that RICA

- a. execute formal written agreements defining the services and costs of educational resources provided, and the related responsibilities of each party; and**
- b. establish agreements with LEAs and State entities, including any contribution rate to be paid to RICA for educational services provided.**

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 July 1, 2008 and ending March 21, 2011. 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 materiality and risk. The areas addressed by the audit included cash receipts, purchases and disbursements, payroll, and bank accounts. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of RICA'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.

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 a condition that we consider to be a significant deficiency 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 did not include conditions 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 RICA 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

December 1, 2011

Mr. Bruce Myers, CPA
Legislative Auditor
Office of Legislative Audits
301 W. Preston Street
Baltimore, MD 21201

Dear Mr. Myers:

Thank you for your letter regarding the draft audit report for the Department of Health and Mental Hygiene's Regional Institute for Children and Adolescents – Baltimore for the period beginning July 1, 2008 and ending March 21, 2011. 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, Program Director, 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 Thomas V. Russell of my staff at 410-767-5862.

Sincerely,

A handwritten signature in black ink that reads "Josh M. Sharfstein". The signature is fluid and cursive, with a long horizontal line extending from the end.

Joshua M. Sharfstein, M.D.
Secretary

cc: Renata J. Henry, Deputy Secretary for Behavioral Health and Disabilities, DHMH
Valerie A. Roddy, Chief of Staff to Deputy Secretary for Behavioral Health and Disabilities, DHMH
Brian Hepburn, M.D., Executive Director, Mental Hygiene Administration, DHMH
Penny Makris, Chief Executive Officer, RICA-Baltimore
Thomas V. Russell, Inspector General, DHMH
Ellwood L. Hall, Jr., Assistant Inspector General Audits, DHMH

**Regional Institute for Children and Adolescents – Baltimore
Responses to Draft Legislative Audit Report**

Findings and Recommendations

Educational Services

Finding 1

Formal agreements had not been executed with local education agencies (LEA's) that provided educational staff to RICA, and with LEA's and State entities whose students received educational services from RICA.

Recommendation 1

We recommend that RICA

- a. execute formal written agreements defining the services and costs of educational resources provided, and the related responsibilities of each party; and**
- b. establish agreements with LEA's and State entities, including any contribution rate to be paid to RICA for educational services provided.**

Center's Response:

- a. The Center concurs and will, in collaboration with the LEA's, establish formal written agreements that address and define all services, costs of educational resources and related responsibilities provided by each party. On July 25, 2011, RICA administrative staff met with LEA management and presented a written agreement that details the roles and responsibilities of each party in regards to education staff responsibilities and services.
- b. The Center concurs and has established a written agreement which states that the referring entity agrees to contribute to the education cost of a client. The written agreement includes a daily rate and annual contribution total for educational services provided by RICA-Baltimore.

AUDIT TEAM

Peter J. Klemans, CPA
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Menachem Katz, CPA
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