

State of Rhode Island and Providence Plantations

Department of Administration  
BUREAU OF AUDITS  
One Capitol Hill  
Providence, Rhode Island 02908-5889  
TEL #: (401) 574-8170

June 16, 2016

Ms. Maria Montanaro, MSW  
Director  
Department of Behavioral Healthcare, Developmental Disabilities and Hospitals  
Rhode Island Executive Office of Health and Human Services  
14 Harrington Road, Barry Hall  
Cranston, Rhode Island 02920

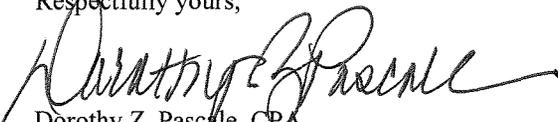
Dear Director Montanaro:

The Bureau of Audits has completed its audit of contract management practices of Division of Behavioral Healthcare. The purpose of the engagement was to determine if DBH's internal processes to engage in service provider contracts are being administered efficiently and effectively, in accordance with contract requirements, statutes and State procedures, and with adequate controls to ensure safeguarding of assets and accurate reporting. The audit was conducted in accordance with Rhode Island General Law (RIGL) §35-7-3. The recommendations included herein have been discussed with members of management, and we considered their comments in the preparation of this report.

Rhode Island General Law §35-7-3(b), entitled *Audits performed by bureau of audits*, states that, "Within twenty (20) days following the date of issuance of the final audit report, the head of the department, agency or private entity audited shall respond in writing to each recommendation made in the final audit report." Accordingly, management submitted its response to the audit findings and recommendations on June 3, 2016, and such response is included in this report. Pursuant to this statute, the Bureau may follow up regarding recommendations included in this report within one year following the date of issuance.

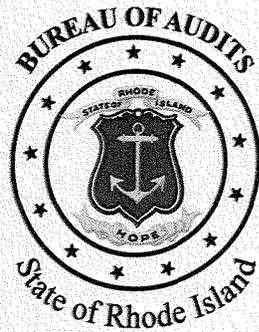
We would like to express our sincere appreciation to the staff of the Division of Behavioral Healthcare for the cooperation and courtesy extended to the members of our team during the course of this audit.

Respectfully yours,



Dorothy Z. Pascale, CRA  
Chief

c- Michael DiBiase, Director, Department of Administration  
Elizabeth Roberts, Secretary, Executive Office of Health and Human Services  
Honorable Daniel DaPonte, Chairperson, Senate Committee on Finance  
Honorable Marvin L. Abney, Chairperson, House Finance Committee



## Executive Summary

### Why the Bureau Did This Review

The purpose of the engagement was to determine if the Division of Behavioral Healthcare administers its contracts efficiently and effectively, in accordance with contract requirements, State statutes and regulations, and with adequate controls to ensure safeguarding of assets and accurate reporting.

### Background Information

The Division of Behavioral Healthcare (DBH) is located within the State of Rhode Island's Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH). DBH is responsible for comprehensive statewide systems of clinical treatment services for substance use disorders, addiction and mental illness prevention and promotion of mental health activities through contracts and community-based providers.

The fiscal staff monitors fiscal grants, reviews federal grant reports, and approves contract service expenditures.

The program staff performs monitoring functions to assure compliance with treatment regulations and quality outcomes.

To Improve Controls, the Bureau of Audits recommends the following:

- Establish clear lines of authority and responsibility for fiscal functions related to contracts and federal requirements.
- Develop formal policies and procedures to standardize fiscal and program processes for contracts.
- Improve consistency and efficiency of contract payment processes.
- Obtain adequate documentation to support contract expenditures.
- Implement procedures to ensure adequate fiscal monitoring of contracts and compliance with federal financial requirements.

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## Strengthen Organizational Structure and Formalize Policies and Operating Procedures to Improve Grant and Contract Management

The Division of Behavioral Healthcare (DBH) has weaknesses in the organizational structure and fiscal operating procedures that impact grant and contract oversight. Control weaknesses noted in the report were attributed to the lack of:

- Staffing resources of the unit
- Standard operating procedures
- Fiscal monitoring
- Coordinated, consistent and efficient payment processing

There are no policies or procedures to support the fiscal job functions or duties. Currently, employees from other Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH) divisions are assisting in performing DBH fiscal job functions due to lack of staff. Prior to the release of this report, DBH began the process to address some of the recommendations included below.

### Recommendations for Improved Controls and Management Responses

#### Establish Standard, Written Policies and Procedures

Documented policies and procedures allow for organized operations by establishing work processes and promoting uniformity of operations among staff. DBH has a lack of formal policies and operating procedures throughout the division, including the following:

- Contract management and maintenance
- Contract payment approval
- Drawdowns
- Federal reporting requirements

Management relies on informal procedures to manage their processes and the day-to-day activities of the division. A lack of policies and procedures may result in an inconsistency in the frequency and performance of processes. At the time of our review DBH fiscal and policy administrators informed us of plans to begin developing formal policies and operating procedures for the division.

#### **Recommendation:**

- 1.) Develop policies and procedures in order to standardize processes amongst DBH staff.

#### **Management's Response:**

Through the new Lean Government RFP, the Department is using approved carry forward money from its Healthy Transitions grant to bring in an independent contractor whose expertise in creating procedural

manuals. This contractor will work closely with DBH fiscal and DBH Policy and Planning to create a division wide procedures manual to cover not only fiscal processes but all contracting, RFP and procurement processes.

**Responsible Party:**

- DBH Fiscal Administrator
- DBH Policy and Planning Administrator

**Anticipated Completion Date:**

- 9/30/2016

### Standardize and Streamline the Invoice Submission and Approval Process

The submission of provider invoices is inefficient. Providers may submit invoices to either DBH's fiscal or program units. There is no central depository for the receipt of invoices. Further, there is no consistent method to submit invoices. Currently, invoices are submitted via email, direct input into iSupplier or mailed.

DBH has a paper-based invoice payment approval process and is not fully utilizing the internal control structure of the State accounting system. Fiscal staff does not approve invoices prior to program staff approval to ensure the services have been provided prior to payment. Program staff is not afforded access to the State accounting system, resulting in the need for physical copies of invoices being emailed or hand delivered between program and fiscal staff. There is no consistent and efficient way of communicating that program staff had approved the invoice for payment.

**Recommendations:**

- 2.) Work with Accounts and Control in order to grant access to program staff. The agency should work with the coordinator at Accounts and Control to determine the most efficient manner of receiving provider invoices and explore the capabilities of the RIFANS Supplier Portal.<sup>1</sup>
- 3.) Request access for the program staff in the State accounting system to review and be first-level approvers for invoices from providers prior to fiscal approval.

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<sup>1</sup>The RIFANS Supplier Portal is an internet tool where State vendors can enter invoices against existing purchase orders and view the purchase order, invoice and payment status.

**Management's Response:**

DBH is currently undergoing a reorganization of its processes as it transitions from a Medicaid driven division to a grant/contracting driven division. Part of that reorganization is the creation of a Program Integrity, Licensing and Facility Status Unit. This unit will be charged with, among other things, the enforcement of all contracting. This includes the investigation and approval of invoices prior to payment. DBH is currently working with Rhode Island Department of Management and Budget to create appropriate standards around invoice approval. Once this unit is established the employees within it will each have assigned contracts to create an expertise in each contract. Providers will all be signed up for isupplier and will submit invoices directly to the portal. Staff will have access to RIFANS to review the invoice and approve them in RIFANS. They will then automatically be sent to fiscal for processing. Also as part of the reorganization, DBH will be hiring a full time billing clerk to monitor and coordinate the submission and approval of invoices.

**Responsible Party:**

- DBH fiscal administrator and billing staff
- Program Integrity, Licensing and Facility Status Unit

**Anticipated Completion Date:**

- July 1, 2016 for all providers submitting invoices into isupplier.
- September 1, 2016 for the hiring of the billing clerk.
- January 1, 2017 for Program Integrity staff to be on RIFANS receiving and approving invoices electronically.

**Obtain Adequate Documentation to Support Contract Expenditures**

DBH fiscal staff does not obtain adequate documentation of contract expenditures prior to payment. The fiscal staff approval is based upon the program staff's review. The program staff receives invoices from providers that include expenditure reports<sup>2</sup> and monitors the expenditure against the contract budget and monthly activity data reported by providers through the BHOLD<sup>3</sup> data collection system. Payment is made without verification of services rendered.

**Recommendations:**

- 4.) Develop procedures that ensure that contract expenditures are being adequately reviewed.
- 5.) Require adequate documentation prior to payment.

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<sup>2</sup> Expenditure reports itemize expenses by the approved budget, expenses for the period, cumulative to date expenses, and the remaining balance for the contract.

<sup>3</sup> DBH Online Data (BHOLD) System is an online application used to track demographic and service information for all Behavioral Healthcare clients.

### **Management's Response:**

Behavioral Healthcare is working with the Division of Management and Budget as well as our federal partners to determine appropriate protocols around invoice backup. This will be part of the procedural manual that will be created for fiscal staff as well as program integrity staff. Currently there are no standard state or federal standards around proper backup so DBH will create our own. These protocols will be shared with OMB and our federal partners in order to ensure all parties have reviewed and approved.

### **Responsible Party:**

- DBH fiscal administrator
- DBH CFO and Chief of Staff
- Policy and Planning administrator

### **Anticipated Completion Date:**

- September 30<sup>th</sup> for the completion of the policies manual. Approval from OMB and our federal partners will depend on any edits or additions recommended.

### **Develop Standards for Contract Maintenance**

Contract files should contain all relevant information to support decision-making and document compliance with rules and regulations in the creation of the contract. DBH's contracts reviewed contained incomplete documentation due to the fact there are no standard operating procedures addressing contract file contents. Our testing found:

- Five of the eight contracts did not have an approval routing sheet.
- Two of the eight contracts were executed subsequent to the contract's effective date.
- Two of the eight contract files did not contain purchasing documentation.

Additionally, there is no central contract inventory. Best practices would include:

- Fully completed routing sheet ensure fiscal program staff and other responsible parties have reviewed the contract.
- Contracts executed prior to the effective period confirms providers are performing work under a legally binding agreement.
- Sufficient purchasing documentation provides a complete audit trail that the appropriate State procedures were adhered to.

### **Recommendation:**

- 6.) Establish formal requirements for contract file maintenance, inventory and approval.

**Management's Response:**

Part of the procedures manual will be standards around the contract files. What is required in each file and what party is responsible for the information.

**Responsible Party:**

- DBH fiscal administrator
- DBH Planning and Policy administrator

**Anticipated Completion Date:**

- 9/30/2016

**Improve Procedures for Review of Provider Audit Reports**

Federal regulations and the terms of the contract agreements between BHDDH and its providers state that the providers must receive a single or program-specific audit if they expend over \$500,000 in Federal awards or have an audit completed in accordance with Generally Accepted Governmental Auditing Standards (GAGAS) if federal funds expended are less than the \$500,000 threshold. The contract agreement further states that BHDDH must ensure adequate monitoring is performed.

A component of effective financial monitoring is the collection and review of independent, financial audit reports from providers. This requirement is included in the contract agreements between BHDDH and its providers as required by federal regulations noted above. DBH is not currently performing a review of the financial audit report submitted by the providers, and there are no written procedures in place to ensure adequate financial monitoring of its providers.

Without appropriate review of independent financial audits, management may be unaware of significant deficiencies that increases the risk of misuse of funds. Further, there is not reasonable assurance that providers are compliant with the federal regulations or taking appropriate corrective action to correct the audit findings.

**Recommendations:**

- 7.) Develop a written policy and procedure for performing a review of the financial audit report submitted by the providers. Include corrective action steps in the event the provider's audited financial statements reveal weakness in financial controls.
- 8.) Perform these reviews on a consistent and timely basis.

**Management's Response:**

In 2012 the division's accountant passed away unexpectedly. To date the position has not been filled and the provider audits have not been completed. As part of the DBH reorganization, the division will be hiring an accountant to perform this duty. Currently the positions have been approved by the Department but

are still awaiting approval from OHHS. The Office of Health and Human Services has provided all fiscal department under their umbrella with an approved checklist for all provider audits.

**Responsible Party:**

- DBH fiscal administrator
- BHDDH CFO and Chief of Staff

**Anticipated Completion Date:**

- September 1, 2016 for the hiring of the accountant
- January 1, 2017 for the provider audit reviews to be up to date.

**Develop Standard Operating Procedures to Meet Federal Requirements**

DBH has no written policies or procedures addressing the drawdown of federal funds. During staff departures throughout the years, positions were left vacant, and DBH utilizes other divisional staff to perform drawdowns. However, management has failed to establish a documented procedure for this job responsibility or a method to perform or review work.

Additionally, DBH does not have standard operating procedures to assist the preparer of the federal reports. For the audit period, eight federal grants were identified which required DBH to submit Federal Financial Reports (FFR) quarterly. The reports were prepared using excel spreadsheets and information obtained from the State accounting system. There is a potential for non-compliance with federal requirements by this ad-hoc method to prepare the reports.

To ensure efficient financial management of grants, an agency should develop appropriate cash management procedures for drawdown and receipt of funds, as well as disbursement of funds.

**Ensure Timely Federal Reporting**

The Federal Office of the Department of Health and Human Services (HHS), Division of Payment Management (DPM), requires a quarterly Federal Cash Transaction Report to provide an overview of the account's cash status. DBH does not timely submit the Federal Cash Transaction Reports on a consistent basis. Failure to submit this report by the specified due dates restricts access to the funds awarded, which did occur during fiscal year 2016.

**Recommendations:**

- 9.) Develop formalized operating procedures for the completion and submission of all federal financial reports and drawdown of federal funds.
- 10.) Submit the Federal Cash Transaction Report by the specified due date.

### **Management's Response:**

As part of the procedural manual, protocols around cash management, drawdowns and reporting will be created. Currently DBH does not have staff dedicated to perform these functions so they are performed part time from staff from other divisions. This causes delays in their completion as they are not their priority. The hiring of a dedicated DBH will solve this issue. All drawdown, cash management and reporting will be performed by this FTE. The policies manual will be written in compliance with all state and federal regulations

### **Responsible Party:**

- DBH Fiscal administrator
- BHDDH CFO and Chief of Staff
- DBH Planning and Policy Administrator

### **Anticipated Completion Date:**

- September 1, 2016 for the hiring of the accountant
- September 30, 2016 for the completion of the procedures manual

## Objective and Scope

The Bureau of Audits (Bureau) conducted a limited scope audit of the Division of Behavioral Healthcare (DBH) contract management practices in place during fiscal year 2015 and 2016 at the request of the Executive Office of Health and Human Services (EOHHS). The purpose of the engagement was to determine if DBH administers its contracts efficiently and effectively, in accordance with contract requirements, State statutes and regulations, and with adequate controls to ensure safeguarding of assets and accurate reporting.

## Methodology

As part of our audit work, we gained an understanding of existing controls in place at DBH for contract management practices. To address our audit objective, we performed the following:

- Interviewed personnel including financial management and program staff.
- Tested a selection of payments and contracts.
- Reviewed drawdown and federal financial reporting procedures.