

State of Rhode Island and Providence Plantations

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July 30, 2015

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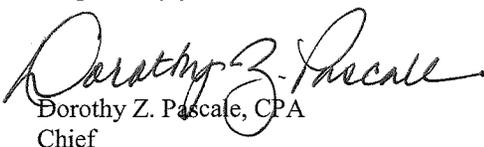
Dear Ms. McDonald:

At your request, the Bureau of Audits has completed its audit of the Department of Children, Youth, and Families procurement and contract management controls in place during fiscal year 2015. 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.

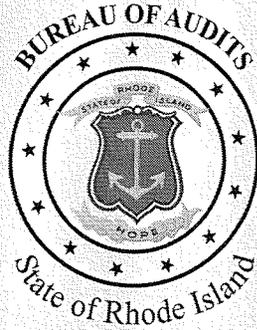
Rhode Island General Law §35-7-3(b), entitled *Audits performed by bureau of audits*, states that, "Within twenty (20) days following the date of issuance of the final audit report, the head of the department, agency or private entity audited shall respond in writing to each recommendation made in the final audit report." Accordingly, management submitted its response to the audit findings and recommendations on November 21, 2014, 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 Department of Children, Youth, and Families for the cooperation and courtesy extended to the members of our team during the course of this audit.

Respectfully yours,


Dorothy Z. Pascale, CPA
Chief

c-Michael DiBiase, Director, Department of Administration
Honorable Daniel DaPonte, Chairperson, Senate Committee on Finance
Honorable Raymond Gallison, Chairperson, House Finance Committee
Dennis Hoyle, CPA, Auditor General
Elizabeth Roberts, Secretary, Executive Office of Health and Human Services



Executive Summary

Why the Bureau Did This Review

The Bureau conducted a limited scope audit of the Department of Children, Youth, and Families' (DCYF's) procurement and contract management controls in place during fiscal year 2015. The purpose of this engagement was to determine if DCYF administers its service provider 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 Department of Children, Youth, and Families' (DCYF) legislative authority is established through Rhode Island General Law (RIGL) §42-72, *Department of Children, Youth, and Families*.

DCYF is decentralized into four regions. Those regions represent Providence, Northern Rhode Island, East Bay and West Bay/South County. Social workers are assigned to each of the four regions and report to a Regional Director.

In order to receive necessary services for the children in their care, DCYF contracts with various providers.

To Improve Controls the Department of Children, Youth, and Families should:

- Establish clear lines of authority and responsibility for contract procurement and management
- Strengthen procedures to ensure compliance with state purchasing regulations
- Review and update delegated purchasing authority
- Develop and implement procedures for adequate fiscal and program contract monitoring
- Strengthen RICHIST access controls
- Obtain adequate documentation to support contract expenditures
- Improve reconciliation procedures for System of Care Network lead agency invoices
- Strengthen payment approval processes for authorized support services and other types of payments
- Improve communication and coordination between financial management and program staff

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Introduction

The Department of Children, Youth, and Families' (DCYF's) legislative authority is established through Rhode Island General Law (RIGL) §42-72, *Department of Children, Youth and Families*. The law states in pertinent part:

The department is the principal agency of the state to mobilize the human, physical and financial resources available to plan, develop, and evaluate a comprehensive and integrated statewide program of services designed to ensure the opportunity for children to reach their full potential. The services include prevention, early intervention, out-reach, placement, care and treatment, and after-care programs ... The department also serves as an advocate for the needs of children. (§42-72-5)

The DCYF Family Services Unit (FSU) consists of social workers who are assigned caseloads with the primary responsibility to ensure the safety, permanency, and well-being of children. The unit is decentralized into four regions: Providence, Northern Rhode Island, East Bay, and West Bay/South County. Social workers in the FSU are assigned to each of the four regions and report to a Regional Director.

The Department utilizes a database system known as the Rhode Island Children's Information System (RICHIST), which serves as the Statewide Automated Child Welfare Information System (SACWIS). SACWIS is a comprehensive and automated care management tool intended to hold the State official case record for each child served. DCYF uses RICHIST for case management purposes and to record costs related to each child in its care. Depending on the child's eligibility and the type of cost, certain expenses are often reimbursable by the Federal Government. RICHIST allocates these expenses to the appropriate funding source such as State general revenue, Medicaid or Title IV-E¹.

In order to receive necessary services for the children in their care, the department contracts with various providers. In 2011, DCYF contracted with two organizations (lead agencies) to develop a state-wide network of care for the well-being of children and families. The lead agencies, in turn, entered sub-contracts with clinical treatment service providers and social support resources. In addition to the lead agencies and their "subcontractors", DCYF also contracts directly with other "vendors" for additional services as necessary.

¹ Title IV-E is a subpart of Title IV of the federal Social Security Act. This program provides federal reimbursement to states for the costs of children placed in foster homes or other types of out-of-home care under a court order or voluntary placement agreement.

Pressure to Deliver Services Damages Control Environment

The Department experiences significant pressure to deliver services for children in a timely manner in a budget-constrained environment. This creates an atmosphere of urgency in which compliance with controls is viewed as secondary to the need to obtain services for the children. This perspective, combined with a lack of clear lines of responsibility and authority, has contributed to the impairment of departmental internal controls over contract management. Management has made unilateral decisions without appropriate segregation of duties, acted outside the scope of its approved purchasing authority, and executed contracts without adequate supporting documentation or authority.

Additionally, financial management staff was not included in the decision making processes that financially impact the Department. For example:

- Financial management was mostly uninvolved in the contract decision-making process.
- Contract creations and renewals were rarely discussed with financial management, which restricted budgetary oversight and planning.
- The administration and oversight of provider transactions was dispersed between the program and fiscal staff with minimal collaboration.
- There was no communication between fiscal and program personnel to validate services delivered prior to payment.

Other controls lacking at DCYF include:

- Standard operating procedures for the procurement of contracts and approval of expenditures
- Procedures for fiscal and program monitoring
- Adequate information system access controls

Internal DCYF correspondence dated May 2014 to the then-director evidenced the former Associate Director of Financial Management had suggested control improvements to the contracting and financial oversight processes which would have addressed some of the deficiencies noted above. However, during our audit, we did not find evidence that these control improvements were implemented.

The Department has undergone significant changes in management beginning February 2015. While new management is developing and implementing control improvements, additional changes are necessary as outlined throughout this report.

Recommendations for Improved Controls and Management Responses

Contract Administration and Maintenance

Establish Formal Requirements for Contract Approval

Formally written policies and procedures for contract approval are an important part of the controls needed to provide assurance that all required parties have reviewed and consented to the services to be provided and the associated cost. Accountability is obtained in the procurement process by assigning responsibility to designated individuals.

DCYF policies and procedures do not identify the individuals required to authorize contract procurements. Contracts have been executed and renewed with varying degrees of approval, knowledge, or accountability from executive, program, and administrative staff.

Testing of approval controls revealed that a signature from the Associate Director of Financial Management was inconsistently obtained on the contract approval sheet. The resulting lack of participation by financial management hinders financial oversight and the ability to appropriately budget for contract expenditures.

Recommendation:

- 1) Establish formal requirements for contract approval authorizations and include financial management staff in the approval hierarchy to strengthen financial controls and budget accuracy.

Management's Response:

As of January of 2015, there was limited organizational clarity, minimal departmental communication, and unclear spans of control regarding contract management oversight and approval. These problems persisted throughout the majority of financial activities.

We have performed a functional analysis of our financial division, which included contract management to determine the necessary approval hierarchies, assignment of tasks, and the necessary roles and responsibilities to facilitate a proper contract unit. The new divisional structure that has been implemented with the assistance of the Executive Office of Health and Human Services identifies clear reporting lines for executive, contract, and program staff with a defined span of control. This new reporting structure will be supported through two primary policy handbooks:

1. Contract and Programmatic Management Handbook – This handbook is 100% completed and will serve as the primary guideline reference manual to safeguard contract management, policy process, approval process, monitoring, procurement methods and funding allocation.

2. Procurement and Purchasing Channel Management Handbook – This handbook is currently being developed. It outlines and identifies all purchasing channels, i.e.; batch payments, requests for proposal, critical expenses, contracts, purchase orders, etc., and establishes roles and responsibilities to ensure proper procurement controls and process are in place.

The combination of these two handbooks will outline the policies and procedures necessary to create consistency in contract management decisions and funding oversight.

Anticipated Completion Date: 1 of 2 handbooks completed. The second handbook is expected to be completed October 31, 2015.

Responsible Party: Chief Financial Officer

Develop and Implement a Formal Procurement Process Compliant with Division of Purchases Regulations

State of Rhode Island Purchasing Regulations include requirements regarding the procurement of goods and the execution of service contracts. Included in these regulations are requirements to:

- Advertise all procurements over \$5,000.
- Adhere to defined bidding and negotiating procedures.
- Include a representative of the Division of Purchases on all bid evaluation committees.
- Obtain a purchase order (PO) prior to the delivery of goods or services and execution of contracts.

Informal procurement processes noted at DCYF lack control points which enforce compliance with purchasing policies, rules and regulations. As a result, contract procurement and negotiation practices did not consistently comply with purchasing rules and regulations. During review of contractual procurements, the Bureau noted the following:

- 10 out of 22 contracts tested (45%) in which there was no evidence that advertising and bidding procedures had been performed.
- 12 out of 22 (54%) contracts were executed without obtaining an approved PO in violation of purchasing regulations.
- 15 out of 22 contracts (68%) tested were signed after the start of the period of performance.

Recommendations:

- 2) Develop and implement a formal procurement process compliant with all Division of Purchases rules and regulations.
- 3) Enforce these rules and regulations; take necessary disciplinary actions when warranted.

Management's Response:

The Procurement and Purchasing Channel Management Handbook outlines and enforces the control points and compliance with the State purchasing policies, rules and regulations. This handbook will align with the policies and procedures as established in the Contract and Programmatic Management Handbook.

Anticipated Completion Date: The anticipated date to complete all employee training and implement operational improvements is October 31, 2015.

Responsible Party: Chief Financial Officer

Develop Standards for Contract Maintenance

Contract files must contain all relevant information to support decision making and document compliance with rules and regulations in the creation of the contract. The contract files available for review did not contain sufficient documentation to provide a complete audit trail. The following documents were not included in the files:

- Bid documentation, including bid collection and assessment results
- Records of program and fiscal monitoring
- Notations of whether the services covered by the contract fell within DCYF's delegated purchasing authority²

There are no standard operating procedures addressing contract file contents. Without sufficient documentation to support contract procurement and payments:

- Purchasing regulations were circumvented.
- Payments were made for contracts prior to execution.
- A complete and accurate budget cannot be created.

Best business practices for contract maintenance require a centralized inventory of all contracts. DCYF does not maintain a centralized contract listing nor does it have an inventory of all contract files. Subsequent to our contract sample selection, additional versions of active contract listings were received.

² For a detailed description of delegated authority, see page 16.

During our cursory review of these listings, it was determined that two contracts listed were never formally executed. We did not find any payments for these contracts. Additionally, staff could not immediately locate all of the requested files, and one file was never provided.

Recommendations:

- 4) Develop standards for the contents of contract files and ensure these standards are applied.
- 5) Create a comprehensive list of all contracts.

Management's Response:

The Contract and Programmatic Management Handbook includes a checklist that outlines the standards and contents for each contract and programmatic file. A comprehensive list of all contracts, purchase orders, and other methods of procurement has been completed and assigned to an individual. The Procurement and Purchasing Channel Management Handbook will outline the criteria and the approval hierarchy for any type of expenditure utilizing the appropriate purchasing channel.

Anticipated Completion Date: The anticipated date to complete all employee training and implement operational improvements is October 31, 2015.

Responsible Party: Contract Manager

Establish Process for Communication of Program Needs

Program staff utilizes direct service contracts on a daily basis in providing care and support for children and families. In doing so, they identify critical needs and select appropriate services to meet those needs. In order to make such determinations, program staff must possess knowledge of the services available via provider contracts and understand how the services relate to the needs of children and families.

There are no formal channels of communication established through DCYF policy or practice. Program staff has no means of communicating departmental service needs to contract personnel. Further, program staff can not readily review the specific terms of provider contracts. Without full knowledge of contract terms, program staff encountered difficulty:

- Identifying the most appropriate service providers.
- Communicating identified service needs.
- Ensuring contract terms were met.

Recommendations:

- 6) Establish a mechanism by which program staff has immediate access to contract terms. Consider using current IT systems to provide information electronically.
- 7) Establish a formal process by which program needs are determined and communicated to management and procurement personnel.

Management's Response:

The Contract and Programmatic Management Handbook outlines the standards of contract and programmatic oversight which includes access to electronic and hard copy files. A programmatic schedule has been established requiring fiscal and programmatic staff to meet once a month to reconcile programmatic issues, work plans, funding, invoicing, and ensure documentation for all monthly activities.

Anticipated Completion Date: August 31, 2015. The Department will assign contract managers as well as train and implement the contract manual.

Responsible Party: Contract Manager

Contract Monitoring

Monitoring providers is a key component of effective contract administration. It provides reasonable assurance that the contracted providers receiving State and Federal funding comply with the terms of the contract and applicable State and Federal regulations. Monitoring is an ongoing process which consists of planning, implementation, communication, and follow-up. DCYF currently has limited contract monitoring procedures in place. Recommendations to improve these procedures are discussed below.

Develop a Risk Assessment Methodology for Monitoring Providers

DCYF does not perform a risk assessment of its providers. Risk assessments are a component of an effective monitoring plan. The results of risk assessments are used to determine the adequate level of monitoring necessary for a provider and also assist in the evaluation of a potential contract renewal or extension.

There are no DCYF policies or procedures which address risk assessment. The Department does not conduct reviews of providers prior to contract renewal, increasing the importance of routine risk assessments. There are inadequate efforts dedicated to the monitoring process, and providers who may be considered "high risk" are not receiving the appropriate type and extent of monitoring.

Recommendations:

- 8) Develop a written policy and procedure for the risk assessment of providers. This policy and procedure must contain:
 - Parameters to assess risk
 - Factors such as program and financial monitoring results, organizational changes, contract history, and program performance
 - The level of monitoring which will be performed as a result of the risk assessment (timing, extent, etc.)
- 9) Assign adequate resources to perform the risk assessments. Those performing risk assessments should include a combination of programmatic and financial backgrounds.
- 10) Document and retain results of risk assessments.

Management's Response:

The Contract and Programmatic Management Handbook has a risk assessment and a monitoring checklist that establishes compliance and performance reviews. Each contract has an assigned contract manager to oversee these duties and will conduct site visits annually to enforce these processes. Contract managers will report out from monthly programmatic meetings when necessary to management as well as at year end to determine the necessary course of actions.

Anticipated Completion Date: August 31, 2015. The Department will assign contract managers as well as train and implement the contract manual.

Responsible Party: Contract Manager

Perform Routine Fiscal and Program Monitoring

DCYF does not have policies or procedures which address monitoring of providers. Routine monitoring of providers allows for the identification of a provider's strengths and weaknesses, assessment of provider services, and justification for additional or reduced funding. There is insufficient fiscal and program monitoring performed. The Department was unable to provide fiscal monitoring documentation for the 22 contracts sampled. Limited program monitoring documentation was provided for three of the contracts.

Without adequate efforts dedicated to the monitoring process, DCYF may not detect provider non-compliance with contract terms or State and Federal regulations; there is potential for misuse of funds. More importantly, there is a risk that children may not receive the appropriate quality of care.

Recommendations:

- 11) Create a policy and procedure for the monitoring of all contracted providers.
- 12) Develop a fiscal and program monitoring schedule which incorporates the results of the risk assessment discussed in Recommendation 8.
- 13) Develop standard fiscal and program monitoring tools to use for all reviews and incorporate applicable contract terms and State and Federal requirements into these documents.
- 14) Assign adequate resources to perform the monitoring functions, including the performance of on-site visits.
- 15) Document and retain results of all fiscal and program monitoring reviews to provide evidence monitoring has occurred.

Management's Response:

The Contract and Programmatic Management Handbook has a risk assessment and a monitoring checklist that will be conducted by the assigned contract manager annually and recorded in the contract file. These processes will also include assessments of the provider's financial audit reports which will also be included in the contract file. In addition, the Executive Office of Health and Human Services will work with their respective agencies to develop a more comprehensive approach with respect to all contract oversight.

Anticipated Completion Date: August 31, 2015. The Department will assign contract managers as well as train and implement the contract manual.

Responsible Party: Contract Manager

Improve Procedures for Review of Provider Audit Reports

Federal regulations and the terms of the contract agreements between DCYF and contracted providers state the provider must receive a single or program-specific audit if they expend over \$500,000 of federal funds. If federal funds expended are less than the \$500,000 threshold, and total Federal and State expenditures exceed \$200,000, providers must have an audit completed in accordance with Generally Accepted Governmental Auditing Standards (GAGAS). If expenditures do not warrant an audit, the agreement states that DCYF must ensure adequate monitoring is performed.

A component of effective fiscal monitoring is the collection and review of independent financial audit reports from providers. DCYF does not currently perform adequate review or collection of the financial audit reports submitted. Appropriate review of these audit reports would include:

- Identifying pertinent findings
- Reviewing going concern issues
- Determining whether there are cash management issues
- Ensuring corrective actions are taken when necessary

Management has limited information regarding the contracted providers' internal controls over financial processes. Without appropriate review of independent financial audit reports, management may be unaware of financial control deficiencies that increase the risk of misuse of funds. Additionally, there is no reasonable assurance that providers are compliant with Federal regulations and contract terms.

Recommendations:

- 16) Include in financial monitoring policies and procedures processes for the collection, retention, and review of independent, financial audit reports and management letters. Address the corrective action that will be required by DCYF in the event of an audit finding or other weakness in the provider's financial controls.
- 17) Ensure resources assigned to the financial monitoring function have the appropriate ability and knowledge to review the reports on a timely basis.

Management's Response:

The Contract and Programmatic Management Handbook includes financial and monitoring policies which entail the review of financial audit reports. With the assistance of the Executive Office of Health and Human Resources, the Department will be able to conduct the proper reviews.

Anticipated Completion Date: August 31, 2015. The Department will assign contract managers as well as train and implement the contract manual.

Responsible Party: Chief Financial Officer

System of Care Phase II Networks

The System of Care (SOC) was developed and implemented with the vision of transforming the State child welfare system. DCYF partnered with community providers in the establishment of Family Care Community Partnerships (FCCPs) in Phase I of the SOC during 2009. The first phase was designed to avoid DCYF involvement with the family and support family preservation and well-being.

In 2011, DCYF contracted with two organizations (lead agencies) to implement the second phase of the SOC. Phase II of the SOC was created as support to the statutory responsibilities of DCYF for children, youth, and families involved with the Department. The goals of Phase II included an improved rate of

sustained reunification, the prevention of maltreatment, timely permanency for children and youth, community safety, educational stability, and successful transitions to adulthood.

The two lead agencies chosen for this task were Family Service of Rhode Island, which operates the Ocean State Network (OSN), and Child & Family Service, which operates the Rhode Island Care Management Network (RICMN). Each agency in turn contracted with providers to provide residential care and other services for children who are wards of the State. It was intended for the agencies to work collaboratively with DCYF staff. DCYF retained legal responsibility of the children to ensure the safety and wellbeing, as well as to set the standards for services and conduct quality assurance procedures. The DCYF Community Services and Behavioral Health (CSBH) Division was responsible for overseeing the performance of each Network in compliance with the contract and Federal and State laws and regulations.

The initial term of the contract was July 1, 2012, to June 30, 2015, at an annual rate to each lead agency of \$35,690,000. However, in the past few years expenditures related to the networks exceeded the budget. In June 2014, the decision was made by DCYF to terminate the contracts. However, only the State Chief Purchasing Agent (via the Division of Purchases) may terminate a State contract. DCYF did not receive approval from the Division of Purchases to terminate the contracts; therefore, contract terminations did not occur.

Document and Perform Reconciliation Procedures for Lead Agency Invoices

Planning and implementation of the second phase of the SOC did not include adequate procedures for invoice submission and verification from the lead agencies. While each network provides services under identical contract terms, the lead agencies vary significantly in their billing procedures. Invoices contain varying degrees of line item detail and differ in the degree and structure of supporting documentation for charges. Therefore, DCYF financial management has limited ability to verify the accuracy of charges. Some of the limitations noted during review include:

- Inadequate procedures for verifying provider child placement census³
- Lack of documentation supporting network administration charges, salaries, and operating expenses
- Inconsistent application and calculation of overhead and fringe allocations
- Insufficient support for flex⁴ spending expenses

³ Provider placement census is an accounting of all children in care with the service providers contracted by the Networks.

⁴ Flex funds are used to support and supplement goods and services that are outside of those services established or mandated by the Department or Family Court, and for which, other reimbursement is not available. The two main purposes for the use of flex funds are (1) emergency/basic needs or (2) non-reimbursable services and supports that are identified as necessary.

As a result, management lacks assurance that charges are appropriate and in compliance with contract terms and budget.

Recommendations:

18) Obtain supporting documentation which:

- Corroborates provider placement census
- Substantiates hours worked by Network support staff
- Documents and justifies flex funds expended
- Supports operating expenses and identifies contract terms allowing each type of operating expense
- Demonstrates consistent application of fringe and overhead rates

19) Document and perform reconciliation procedures for lead agency payments.

Management's Response:

The Contract and Programmatic Management Handbook outlines the proper reconciliation and documentation process for all contracts including the network leads. For the new FY 2016 contracts an invoice template and process has been developed to standardize the reconciliation review.

Anticipated Completion Date: August 15, 2015.

Responsible Party: Contract Manager

Improve Reconciliation Procedures of Network Census

RICHIST is used to track direct service expenses and calculate reimbursement through various Federal government programs such as Medicaid and Title IV-E. All direct services must be recorded in this system to be included in the calculation for federal reimbursement. All child placements should be recorded in the RICHIST system on at least a monthly basis.

Lead agencies are responsible for securing placements for assigned children and provide a census file to DCYF monthly containing:

- Child demographics
- Provider name
- Dates of Service
- Rates
- Total amount paid

On a monthly basis, DCYF financial management reconciles lead agency census charges to align placement data from the lead agencies to RICHIST.

Reconciliations reviewed contain variances between charges paid to the lead agencies and charges included in RICHIST. Financial Management attributes this variance to unprocessed or disputed claims which are awaiting confirmation or clarification by lead agencies or other subcontractors. The method for tracking these types of unprocessed claims does not systematically group outstanding claims in a manner that readily ties to the monthly reconciliation. As a result, the Department does not have assurance that all monthly claims have been properly accounted. Some of these claims remain unresolved for extended periods of time.

While Federal reimbursement is not claimed for outstanding placement charges, full payment is rendered to providers for the full invoice amount, including those charges which have not yet been verified. If DCYF determines that any portion of the charge is not appropriate, adjustments are made to subsequent month invoices to recuperate funds. This process expends State funds for charges which may be unsubstantiated. The Department is not collecting Federal reimbursement for these outstanding claims and is potentially paying excess State funds to the lead agencies.

Recommendations:

- 20) Maintain a complete and accurate listing of all unclaimed charges. Match the unclaimed charges to the monthly reconciliation.
- 21) Assign staff to resolve questionable provider charges in a timely manner.
- 22) Withhold payment from lead agencies for any charges awaiting verification.

Management's Response:

The Contract and Programmatic Management Handbook establishes that the contract managers have the responsibility for all reconciliation activities. In regards to the lead agencies, the contract manager is assigned to follow up on any unclaimed charges and to ensure a response is received in a timely manner. By federal standards, we are allowed to reconcile any claim going back two (2) fiscal years, which we have aggressively undertaken.

Anticipated Completion Date: Reconciliation of all claims and recouping entitled offsets is anticipated to be completed by October 31, 2015.

Responsible Party: Lead Agency Contract Manager

Review Lead Agency Subcontractor Payments

According to the terms of the network contracts, the lead agencies manage and pay for direct services provided by subcontractors and are then reimbursed by the Department. Since DCYF makes payment in aggregate to the lead agencies, these payments are not specific to the child or the provider. In order to allocate payments to the appropriate funding source (State general revenue, Medicaid, etc.), "dummy" contracts were established in the RICHIST system to track the services by subcontractors. A period of uncertainty regarding the continuation of network contracts caused DCYF administrative staff to prepare for the discontinuation of network operations. As part of this preparation, contracts in RICHIST originally intended to track service requisitions in "dummy" status were re-activated to make cash payments to subcontractors.

DCYF erroneously made payments of \$45,581 directly to two lead agency subcontractors. Due to a lack of supporting documentation for amounts paid to the lead agencies, the Bureau was unable to determine if the amounts paid to the contractors were also included in the payments to the lead agency. It is possible that DCYF may have paid twice for the same service.

Recommendations:

- 23) Review payments made to the subcontractors referenced above. Request supporting documentation from lead agencies for expenses paid to those subcontractors during the same period.
- 24) Compare the payments made by the State with the payments made by the lead agencies to determine if any duplicate payment has been made and take appropriate corrective action if necessary.

Management's Response:

We have aggressively continued to reconcile all payments to providers including the lead agencies and their subcontractors. Historically, payments have been made through several different procurement mechanisms which have made it difficult to reconcile the process and logic. Through the Procurement and Purchasing Channel Management Handbook the procurement methods and process controls will be outlined and standardized. To date we have found many payments made erroneously including the \$45,581 amount and will continue to rectify the errors in procurement.

Anticipated Completion Date: The anticipated completion date is October 31 of 2015.

Responsible Party: Chief Financial Officer

Delegated Purchasing Authority of the Department

Purchasing regulations allow a designated individual within an agency to act as a State purchasing agent when cost effectiveness and efficiency are best served. This individual is granted the authority to enter binding contractual agreements, which are subject to all of the rules and regulations promulgated by the Division of Purchases. This is known as delegated authority. Beginning in 1990, DCYF was granted delegated authority by the Chief Purchasing Officer⁵ to incur certain types of expenditures.

The Bureau reviewed DCYF delegated purchasing authority documents located at the agency. Issues found and associated recommendations to improve operations and controls are detailed below.

Review and Request Updated Scope of Delegated Purchasing Authority

Purchasing regulations require names and titles of authorized individuals to be listed on the delegated authority approval letter in conjunction with the specific accounts, commodities, and levels of expenditures authorized.⁶

Delegated authority letters on file at DCYF do not contain the level of detail required by the Purchasing regulations, and the authorizations are over 20 years old. The original authorizations of delegated purchasing authority to DCYF contained no term limit. Therefore, the Department neglected to routinely review the categories for which it was granted delegated authority. Further, various DCYF directors and administrations continued to expand the scope of the delegated purchasing authority without approval of the Division of Purchases or the Chief Purchasing Officer. For example, original delegation included only emergency intervention support services, specialized residential treatment, and chaplaincy services.⁷ The Department now procures services as though it has delegated authority for all direct services, and therefore is over stepping its purchasing authority.⁸

Recommendations:

- 25) Ensure that proper controls and oversight are in place to procure all services in accordance with State purchasing policies and procedures.

- 26) Reevaluate the scope of delegated authority and formally request delegated authority from the Chief Purchasing Officer for those areas deemed critical.

- 27) Review the granted authority periodically for any necessary changes or updates.

⁵ In accordance with Rhode Island General Law §37-2-7(3), for state agencies the Chief Purchasing Officer is the Director of the Department of Administration.

⁶ Refer to Purchasing Regulation §2.2.3.1.4.

⁷ Delegated purchasing authority for emergency intervention support services and specialized residential treatment was granted in December 1993. The authority to procure chaplaincy services was granted in May 1997.

⁸ Direct services are services for the direct benefit of children whom are wards of the State.

Management's Response:

The Procurement and Purchasing Channel Management Handbook will outline the controls and oversight for all State purchasing requirements and will ensure the proper compliance and authority is adhered to for each procurement mechanism.

Anticipated Completion Date: The anticipated completion date is October 31, 2015.

Responsible Party: Chief Financial Officer

Eliminate Division of Purchases Approval for Payment of Certain Transactions

Most DCYF expenditures are paid through the batch payment process.⁹ The Office of Accounts and Control (A&C) processes payments in a batch only if one of the following conditions is met:

- The payment is included in the CFO 09-02¹⁰ correspondence.
- The agency has delegated authority to purchase the specific good/service.
- The Division of Purchases approves the expenditures to be paid through a batch and signs off on the batch to be paid.

A batch payment utilized by DCYF is known as the “non-delegated” batch. The intent of this batch is to process payments for all items for which DCYF does not have delegated authority. The “non-delegated” batch does not fit the first two criteria above. Consequently, DCYF submits the supporting documentation for the transactions included in the “non-delegated” batch to the Division of Purchases for approval. The Chief Purchasing Agent is responsible for reviewing and signing off on the batches, and then delivering them to A&C for payment. This process has been in place for many years, and multiple individuals who have held the Chief Purchasing Agent position have performed this function.

DCYF does not review the items contained within the batch, but believes that the Division of Purchases performs a review of all transactions to ensure that DCYF properly procured services. However, the documentation submitted is insufficient for the Division of Purchases to determine if purchasing regulations were followed. DCYF does not submit sole/single source justifications nor does the Department consistently follow the bidding process for the procurement of services in accordance with the regulations.

⁹ Batches are sorted by the category of expenditure. For example, DCYF has batches for non-delegated purchase payments, contract vendor payments, foster care parent payments, etc.

¹⁰ This memo was created by the Office of Accounts and Control to provide guidance regarding the appropriate use of batch payments.

The Division of Purchases acknowledges their limitations in this process and has suggested in the past¹¹ that DCYF petition the Chief Purchasing Officer for an expanded scope of delegated authority.

The following issues were noted:

- DCYF has not updated its delegated authority and has been operating over the years as though it has unlimited delegated authority.
- The Division of Purchases has continued over the years to sign off on the non-delegated batch payments without review or knowledge of the services procured.
- Purchases may be made by DCYF without properly going through the competitive bidding process.

Note: Implementation of Recommendations 25 through 27 will resolve the issues noted above. The Division of Purchases will no longer be required to review non-delegated batch payments and DCYF will have controls in place at the departmental level to properly approve and process the payments.

Information Technology

Develop Written Policies and Procedures for Internal System Access

Best business practices addressing system access rights restrict privileges only to essential job functions. DCYF has no written policies or procedures which address assigning or revoking access, and reviewing approval levels or privileges. When a user's job duties change, a user's access rights and privileges should also be changed timely.

RICHIST approval level hierarchies were modeled after another state system and partially modified for DCYF-specific purposes. Documentation regarding the design was not provided during our audit. Additionally, there is an inadequate process to notify IT of staffing changes within the Department. To date, a review of all user system access and privileges has not been performed. There is a high risk that employees have inappropriate access rights or approval rights to the RICHIST system. For example, it was noted that information technology (IT) personnel had inappropriate approval capabilities in RICHIST. Strong internal controls require a separation of duties in IT to prohibit employees with programming responsibility from also having approval access ability in live production.

¹¹ E-mail correspondence from 2007 was reviewed that included this request.

Recommendations:

- 28) Develop written policies and procedures that address the assignment and revocation of access to RICHIST.
- 29) Define roles and responsibilities for each approval level.
- 30) Perform a timely review of current access levels in RICHIST and ensure that only privileges essential to the user's work requirements are granted.
- 31) Remove RICHIST approval access for all current IT personnel.

Management's Response:

As of May 2015, we have appointed an Operations Manager that now oversees and coordinates all information technology activities. An analysis of RICHIST operations, responsibilities and approval levels has been completed. Corrective actions will be implemented August 2015. Written policies and process are being coordinated by the Operations Manager and will be completed October 2015. In addition to all RICHIST improvements including this audit finding, we have included in our FY 2017 Capital Budget request infrastructural improvements to the RICHIST system anticipating the forthcoming audit findings and the long term informational technology needs of the department.

Anticipated Completion Date: The anticipated completion date is October 31, 2015.

Responsible Party: Operations Manager

Request and Payment Process - Authorization for Support Services

The Authorization for Support Services is a function of RICHIST used by DCYF staff to request necessary individual support services that cannot be directly provided by the Department. This is known as the "#005" process and will be referred to hereafter as the "#005." The intended use of the #005 is for DCYF to track the use of services, authorize payments to DCYF vendors, and account for services funded through Medical Assistance.

The Regional Directors are responsible for overseeing the #005 requisition process. These requests are initiated either as a result of a court order or at the discretion of the social worker. When the social worker exercises discretion to purchase services, they must fully justify why the service is necessary. The social worker selects a provider who offers the type of service required. The social worker documents the need for service and initiates a #005 request to pay for the service with state funds.

The social worker must first attempt to fund the purchase through the parent – for example, through the parent’s insurance plan. When such funding is not available, services must be funded by Medicaid, State General Revenue, Title IV-E Federal funding, or other sources. After the service is rendered, the provider invoices the department via the #005 payment authorization form. The #005 is sent directly to DCYF financial management for payment approval.

Strengthen Service Approval Hierarchy

All transactions and activities should be performed and approved by employees acting within their range of knowledge and authority. Proper authorization of transactions provides management assurance that funds are expended appropriately. All efforts to purchase should flow through competitively bid contracts prior to utilizing this mechanism.

The RICHIST system does not have a restricted workflow for #005 requests. After a #005 request is created in the system, the system does not automatically route the approval to an individual within the requestor’s direct reporting line. The requestor has the ability to choose the approver. The #005 requests may therefore be inappropriately reviewed and approved.

Recommendation:

- 32) Create specific workflows in RICHIST to ensure that #005 service requests are sent to the employee’s supervisor, or an appropriate designee.

Management’s Response:

An analysis and process map of 005 payments has been completed. A written 005 policy and an improved work flow are being drafted and will be vetted by the Executive Office of Health and Human Services.

Anticipated Completion Date: The anticipated completion date is October 31, 2015.

Responsible Party: Chief Financial Officer

Implement Authorization for Support Services Payment Approval Controls

Best internal control practices match services rendered to services requested prior to payment initiation. The DCYF process did not match services prior to payment. The vendor submits a document called the #005 payment authorization form which serves as its invoice to the Department. The #005 payment authorization form from the provider is not routed to the service requestor to verify that services invoiced were delivered to the child. Evidence of matching service requested to service provided was noted only when providers requested a re-authorization to provide a continuation of service. In these instances, the social worker or Regional Director was provided with evidence of service performed from the provider, such as a report, along with justification of further need for service.

Financial management personnel are unable to determine if services were actually rendered, and lack the knowledge necessary to determine if the services rendered by the provider match the services requested by the social worker. There is no other documentation required from the vendor other than the #005 payment authorization form. This form alone does not provide sufficient documentation to support delivery of service. The #005 form does not contain the necessary detail for financial management to determine if services requested were identical to services billed.

As a result, the Department may be paying for services not rendered and children may not be receiving necessary services.

Recommendations:

- 33) Implement controls which route invoice payment approvals to the service requisitioner prior to financial management for payment. Consider using information systems for electronic approval.
- 34) Require providers to submit a summary report of services actually provided, and if applicable, re-authorization requests, along with the #005 payment authorization form to the social worker or regional director.
- 35) Develop a standard reporting template for the providers to use for the submission of service results

Management's Response:

The Procurement and Purchasing Channel Management Handbook will outline all purchasing channels including the 005 payments. This handbook will document the internal controls and approval process that each channel will need to adhere to including monitoring, reconciling, and reporting. The assigned contract manger will sign off on all invoices to ensure proof of purchase and to ensure the validity of the payment.

Anticipated Completion Date: The anticipated completion date is October 31, 2015.

Responsible Party: Chief Financial Officer

Create New RICHIST Payment Report to Process Time Sensitive Requisitions

The RICHIST system generates bi-weekly payment reports which detail all amounts due to the providers.¹² The payment cycle is too infrequent to meet Departmental needs for certain types of expenditures such as threats to health and safety, barriers to reunification, court orders, and other miscellaneous services which must be paid immediately. In order to expedite these payments, DCYF has developed a process by

¹² These payment reports are referred to by the department as "payrolls."

which some of these immediate expenditures are recorded through the accounts payable module of the State accounting system rather than through RICHIST.

To accomplish this, the #005 requests are not released for payment by DCYF financial management in the RICHIST system but remain active and unpaid indefinitely. Also, there is a risk that the #005 request may be erroneously paid again in the future. As the RICHIST system is used to calculate Federal reimbursement, expenditure totals included on Federal reimbursement requests may be understated.

Recommendation:

- 36) Create a new RICHIST payment report which runs on a more frequent basis, as determined by management, to meet the needs of time-sensitive requisitions and discontinue the practice of paying #005 requests outside of the RICHIST system to maximize reimbursements.

Management's Response:

The Procurement and Purchasing Channel Management Handbook will outline the management needs and reports for each purchasing channel including the 005's in order to have proper oversight and control. To this point, we have continued to utilize the Executive Office of Health and Human Services to determine what other reports we will need in addition to purchasing oversight from RICHIST.

Anticipated Completion Date: The anticipated completion date is October 31, 2015.

Responsible Party: Operations Manager

Track Court-Ordered Payments

The Rhode Island Family Court is the administrative body overseeing child welfare and mandates certain services to be provided through court orders. DCYF is the agency responsible for carrying out and funding the court orders. DCYF must comply even if the services differ from their normal standard operating procedures. In these instances, #005 requests are created to pay for the court-ordered service.

DCYF does not track or budget court-ordered payments; however, management attributes a portion of their overspending to these court-ordered expenditures.¹³ Without accounting for court-ordered

¹³ The Department does have two service type categories for court-ordered foster care living arrangements, however, these are the only two court-order services tracked.

payments individually, it is difficult for DCYF to determine the portion of budget overrides outside its realm of control.

Recommendation:

37) Identify and account for all types of court-ordered payments in RICHIST.

Management's Response:

As of May 2015 we have begun tracking manually all court-ordered payments in RICHIST in addition to other miscellaneous expenditures that are difficult to identify and budget for including foster care clothing, foster Christmas gifts, foster birthday gifts, RITPA bus passes, advertisements, and local education agency payments.

Anticipated Completion Date: September 31, 2015

Responsible Party: Chief Financial Officer

Payment process

DCYF incurs various types of expenses, many of which are paid outside of the Authorization for Support Services (#005) process previously discussed. Issues identified with these other types of payments are discussed below.

Review Payment Method for Contracted Providers & Verify Service Performance Prior to Invoice Payment

Similar to the issue identified in *Implement Authorization for Support Services Payment Approval Controls* discussed above, invoices processed outside of the RICHIST system also lack a process to verify satisfactory delivery of service. As an essential aspect of internal controls over invoice payments, service delivery confirmation procedures ensure that contractors comply with contract terms and provide all deliverables prior to payment. This type of control requires an individual with knowledge of the requested service to verify that the service provided matched the service requested.

DCYF is currently paying those providers with contracts using the "1/12th" payment method. Under this payment method, the provider receives a monthly payment equal to the annual cost of a contract divided by 12 months. There is no requirement for service delivery confirmation prior to invoice payment. Invoices are received and approved by financial management staff without coordination with program staff. The Bureau reviewed 40 invoice payments from fiscal year 2015 and noted that 13 (32%) did not contain evidence of confirmation of service delivery.

Recommendations:

- 38) Review all contracts and determine those which should be paid based off of actual expenditures incurred for the period.
- 39) Assign staff with adequate knowledge of the program and provider to verify the delivery of services; require approval prior to payment.

Management's Response:

All contracts and payment methods of 1/12th have been removed and are now on a cost reimbursement basis. This will be continued in all FY 2016 contracts. Each contract will be assigned a contract manager to oversee all activities.

Anticipated Completion Date: August 31, 2015

Responsible Party: Contract Manager

Ensure all Direct Services are Recorded in RICHIST System

As stated previously, the RICHIST system is used to record all direct services for children. The Federal government reimburses qualified expenses based on the child's eligibility and type of cost. The RICHIST system allocates recorded expenses to the appropriate funding source for reimbursement.

There is no comprehensive listing of service-type definitions within RICHIST. As a result, DCYF management is unable to ensure that all appropriate expenses are properly identified and recorded in the RICHIST system. The lack of responsibility and oversight for the recording of direct services could lead to inaccurate federal reimbursements and case management records.

Recommendations:

- 40) Develop a data dictionary which defines each service type included within RICHIST.
- 41) Process all direct services through the RICHIST system.
- 42) Review providers in RICHIST to determine if expenditures are for direct services.
- 43) Validate direct service expenditures are routed to the correct service type.

Management's Response:

We are utilizing the Procurement and Purchasing Channel Management Handbook to outline the tracking and most appropriate method to process payment. We have continued to conduct reconciliations for all RICHIST payments to providers to understand if the payment was valid and if it should be in RICHIST. In addition to the anticipation for audit findings within RICHIST we have requested FY 2017 Capital funding to address the short term and long term informational technology needs to be able to track, approve and monitor all payments and claims.

The handbook will address and give criteria to all expenditures on how they should be procured within the proper purchasing channel.

Anticipated Completion Date: The anticipated completion date is January 31, 2015.

Responsible Party: Chief Financial Officer

Track and Monitor Family Security Deposit Receivables

Security deposits are refundable sureties against property damage. Upon lease termination, the funds must be returned if no damage has been sustained other than normal wear and tear.

DCYF pays the security deposit for families whose lack of secured residence is the final barrier to child reunification. As part of this payment process, the property owner agrees that the security deposit must be returned to DCYF immediately when the tenant vacates the apartment. DCYF does not maintain a ledger of landlord receivables due from security deposits. Therefore, the Department lacks the necessary information to enforce collection of outstanding receivables.

Management has not instituted a process in which security deposit payments are identified and recorded. Without a listing of outstanding receivables, formal collection processes are limited.

Recommendations:

- 44) Assign an employee to track family security deposit disbursements. Require approval by this employee prior to disbursement of cash, and implement a process in which the designated individual maintains a receivables ledger of all security deposits.
- 45) Confirm family residency through letter or telephone calls regularly and implement collection of outstanding receivables.

Management's Response:

We have identified an individual to be responsible for all security deposits and social security expenditures. A tracking mechanism has been put in place however a reconciliation method is still being

developed. In addition to this oversight we will include rent, gift cards, and all checks, to ensure the proper oversight and controls are in place.

Anticipated Completion Date: The anticipated completion date is October 31, 2015.

Responsible Party: Chief Financial Officer

Objective and Scope

The Bureau of Audits (Bureau) conducted a limited scope audit of the Department of Children, Youth, and Families (DCYF's) procurement and contract management controls in place during fiscal year 2015. The purpose of this engagement was to determine if DCYF administers its service provider 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 the existing controls in place at DYCF for procurement and contract management practices. To address our audit objective, we performed the following:

- Interviewed personnel including financial management staff, Regional Directors, IT support staff, and program staff.
- Researched procurement and contract management best practices.
- Reviewed delegated purchasing authority granted to DCYF by the Chief Purchasing Officer
- Reviewed contract files.
- Tested selection of payments recorded via the case record system administered by DCYF (RICHIST) and the state accounting system (RIFANS).
- Reviewed reconciliations of payments to System of Care (SOC) lead agencies.



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July 30, 2015

Dorothy Z. Pascale, CPA
Chief
Bureau of Audits
Department of Administration
One Capitol Hill
Providence, RI 02908

Dear Ms. Pascale:

On behalf of Governor Gina M. Raimondo and Health and Human Services Secretary Elizabeth Roberts, I extend my sincere thanks to you and your team for your rapid response to our request this past February. Our concerns over the contractual and financial status at the Department of Children, Youth and Families (DCYF) required immediate action to correct issues that have persisted for years. As the Governor has stated, these problems did not begin overnight, nor can we solve them overnight. However, with our collective sense of urgency to define and resolve them as quickly as we can, the children and families of our state will be better served.

I concur with all the Bureau of Audits findings that were conducted under an audit for procurement and contract management controls that were in place during fiscal year 2015. In response to your audit report, please find DCYF management responses. These responses will align with your recommendations to ensure service provider contracts are efficient and effective. Our actions will also ensure DCYF conducts itself in accordance with contract requirements, State statutes and regulations, and with adequate controls to ensure safeguarding of assets and accurate reporting.

Sincerely,

Jamia R. McDonald
Chief Strategy Officer

