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August 16, 2016

Ms. Melba Depena Affigne  
Director  
Department of Human Services  
Rhode Island Executive Office of Health and Human Services  
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Cranston, Rhode Island 02920

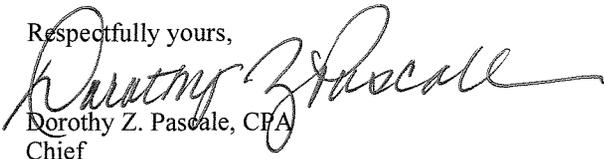
Dear Director Depena Affigne:

The Bureau of Audits has completed its audit of contract management practices of the Department of Human Services. The purpose of the engagement was to determine if DHS'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 August 15, 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 Department of Human Services for the cooperation and courtesy extended to the members of our team during the course of this audit.

Respectfully yours,



Dorothy Z. Pascale, CFA  
Chief

c- Michael DiBiase, Director, Department of Administration  
Elizabeth Roberts, Secretary, Executive Office of Health and Human Services  
Robert Farley, Associate Director, Division of Management Services, Department of 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 Department of Human Services administers its grants and associated 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 Human Services has five business offices, including: the DHS Central Management, the Division of Veterans Affairs, the Office of Rehabilitation Services, the Division of Elderly Affairs and the Office of Child Support Services. These divisions administer a range of health and human services and oversee millions of dollars in federal grant awards.

The fiscal staff monitors fiscal grants, reviews federal grant reports and approves contract service expenditures. The program staff performs monitoring functions to assure compliance award requirements.

To Improve Controls, the Office of Internal Audit recommends the following:

- Develop and disseminate policies and procedures in order to standardize processes amongst DHS staff.
- Conduct a lean initiative on the processing of payments.
- Execute contracts timely prior to the start of performance.
- Implement monitoring plan of sub-recipients based on results of formalized risk assessment.
- Develop written policy on sub-recipient monitoring based on risk assessment.
- Ensure the new resident VA per diem application is submitted timely.
- Monitor federal regulations and award letters for funding requirements.

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## Introduction

### Organizational Structure

The Department of Human Services (DHS) is part of the Executive Office of Health and Human Services (EOHHS). EOHHS is responsible for managing the organization, design and delivery of health and human services, and to develop and implement an efficient and accountable system of high quality, integrated health and human services. In addition to DHS, EOHHS also includes: Department of Children, Youth and Families (DCYF), Department of Health (DOH), and Department of Behavioral Healthcare, Development Disabilities and Hospitals (BHDDH).

DHS is comprised of several program units:

- Central Management<sup>1</sup> consists of administrative and management components to assist the Director with coordination and oversight. The centralized management components include: MIS, support services, budget development and monitoring, financial and contract management.
- Division of Elderly Affairs (DEA) is responsible for the development of community-based services and programs that encourage independence and preserve the dignity of seniors and adults with disabilities. DEA is also designated as the State's single planning and service area agency on aging under the provisions of the Older Americans Act
- Division of Veterans Affairs (RIDVA) The Rhode Island Division of Veterans Affairs is responsible for the overall administration and oversight of a comprehensive program of advocacy, liaison, outreach and services for veterans; to ensure that state and federal benefits and services are provided to eligible veterans and their families; to oversee the control and management of the Rhode Island Veterans' Home and Veterans' Cemetery.
- Office of Rehabilitative Services (ORS) administers the Vocational Rehabilitation (VR) Program. This is the public state and federally funded program that assists individuals with disabilities to choose, prepare for, obtain and maintain employment—employment being the successful outcome of services provided through the public vocational rehabilitation program.
- Office of Child Support Services (OCSS) establishes paternity of children, establishes court orders for financial and medical support, modifies or changes the order when appropriate and vigorously enforces support orders.<sup>2</sup>

### Background

DHS' mission is to work "hand-in-hand with other resources in Rhode Island to offer a full continuum of services for families, adults, children, elders, individuals with disabilities and veterans."<sup>3</sup>

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<sup>1</sup> For the purposes of this report "Central Management" refers to the DHS Central Management program.

<sup>2</sup> Audit report issued June 2014

<sup>3</sup> DHS website.

During State Fiscal Year 2016, 83 percent of the DHS budget was derived from federal grant sources. For many grants, DHS enters into provider contracts who conduct the services. DHS administers the grants according to the awarding federal agency regulations.

## Strengthen Organizational Structure and Standardize Fiscal Policies and Procedures to Improve Controls over Grant and Contract Management

### Organizational Structure

EOHHS is working to centralize the health and human service departments. To align with the EOHHS strategy, senior management at DHS is developing centralized fiscal policies and procedures. We note an impediment to achieving centralization. The DHS divisions operate independently with limited coordination, and DEA and RIDVA have cabinet level directors. This structure does not promote a centralized methodology. We find each program unit operates as if it has authority to set its own fiscal policy.

We observed, DEA, RIDVA and ORS having their own independently operating fiscal staff, who follow the program unit procedures specific to the program unit. The program unit procedures vary; there is no standardization or centralization.

In order to achieve standard practices across DHS divisions, certain functions should be centralized within the higher level organization – EOHHS. These functions include:

- Identifying new grant opportunities
- Communicating reporting lines of authority
- Developing standard policies and procedures

The identification and assignment of grant opportunities and oversight should reside within EOHHS, as EOHHS is charged with planning, budgeting and leveraging federal financial funds for all health and human service agencies. EOHHS should align grant opportunities with strategic initiatives and communicate directives within its organizational structure to bring forth the efficiencies and standardization.

During the course of the audit, DHS was in the process of updating an organization chart that designates duties and responsibilities. Upon dissemination of this organizational chart, clear lines of reporting and authority will become clear; they do not currently exist.

### Contract Management

The staff relies on the awarding federal agency regulations to determine the administration of an award or grant. Many of the federal regulations are broad; allowing recipient agencies to develop their own policies and procedures. Oftentimes there is limited federal guidance for appropriate levels of sub-recipient or fiscal monitoring. However, there is an expectation that the recipient will implement a sufficient level of oversight over the sub-recipient to ensure funds are dispersed for their intended

purpose. The implementation of standard policies and procedures across DHS program units will create a stronger control environment with appropriate levels of sub-recipient and fiscal oversight.

Central Management is engaging in significant fiscal policy changes which include:

- Re-writing contracts
- Adopting a monthly fiscal reporting form
- Ensuring one fiscal manager is assigned to each grant

These changes improve the Central Management control environment; however, these changes are not implemented in the other program units.

The undefined organizational structure and failure to develop standard policies and procedures has resulted in the internal control weaknesses addressed throughout this report.

## Recommendations for Improved Controls and Management Responses

### Comply with Purchasing Rules and Regulations by Timely Executing Contracts

Best practices, and State Purchasing Regulations, for contract execution includes ensuring all parties have reviewed and signed the document prior to the period of performance to ensure work is performed under a legally binding agreement. Further, a completed approval sheet ensures all applicable fiscal and program staff reviewed the contract and agree with the terms. There is the potential for vendors to be paid without a legally binding agreement.

Contracts were reviewed for the Central Management and DEA.<sup>4</sup> It is not uncommon for one award to result in multiple service contracts. The contracts roll over from year to year, and the vendors are made aware of the funding prior to the start of the new period of performance. Therefore, program staff do not prioritize approval and execution of the contracts prior to services being rendered.

The five grant awards tested for the Central Management included 38 contracts; 32<sup>5</sup> of which were with non-state entities; testing results are:

- 26 contracts signed after the effective period of performance.

The two grant awards reviewed for the Division of Elderly Affairs included 25 contracts of which:

- 25 were signed after the effective period of performance.

### **Recommendation:**

1. Ensure contracts are executed timely prior to start of the performance.

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<sup>4</sup> Grants selected from ORS did not include contracts, and the RIDVA grant was closed out prior to the start of the audit.

<sup>5</sup> The remaining six contracts were interagency agreements with testing results detailed at *Execute Interagency Agreements Prior to the Period of Performance to Define Responsibilities*.

**Management's Response:**

The Department concurs with the finding and had already begun to implement changes prior to the start of the Bureau of Audits review. In June 2015, DHS CFO issued a memo to all DHS administrative, program and fiscal staff in central management and all DHS divisions reminding staff that per RIGL 37-2, contracts and purchase orders must be in place prior to the start of services. The DHS CFO coordinated with the Division of Purchases to provide a training for administrative and fiscal staff in December 2015 which focused on the purchasing process and the requirement for purchase orders to be in place prior to the start of services. The Department will fully implement this recommendation.

**Responsible Party:**

Maureen Wu, Chief Financial Officer

**Anticipated Completion Date:**

October 1, 2016

**Implement a Standard, Efficient Process for the Submission and Payment of Invoices**

The current invoicing process allows for various methods of invoice submission. DHS providers submit invoices through mail, email and iSupplier.<sup>6</sup> The invoicing process has several redundant and inefficient components including:

- Submitting invoices twice, via iSupplier and by email
- Printing electronic copies of invoices and signing invoices to note approval
- Scanning the printed invoices noted above to send back to vendor or upload to the State accounting system
- Matching physical copies of invoices to the electronic version in the State accounting system

Both program and fiscal staff are required to approve an invoice prior to payment. While DHS utilizes the State accounting system for electronic invoice approval from the fiscal staff, the program managers do not have access to the accounting system to electronically review and approve the invoice.

Refer to Appendix A for a more detailed review of processes.

**Recommendation:**

2. Conduct a lean initiative for payment processing. As part of the event:
  - Determine an efficient, standard process for the approval of invoices. Consider placing program review staff in RIFANS work flow.
  - Align payment process improvements with the Governor's initiative to reduce paper.

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<sup>6</sup> iSupplier Portal is an internet self-service tool which gives suppliers the ability to directly access information and enter business transactions across the procure-to-pay life cycle.

**Management's Response:**

The Department will conduct a LEAN initiative for payment processing and will align the payment process to the Governor's initiative to reduce paper as much as possible given the increased requirements for documentation of expenditures for all reimbursement-based contracts.

**Responsible Party:**

Maureen Wu, Chief Financial Officer

**Anticipated Completion Date:**

August 2017

**Execute Interagency Agreements to Delineate Responsibilities**

Interagency agreements should define the parties' roles and responsibilities for the administration and oversight of federal funds. When an agency does not have the expertise or staff to administer a grant, an interagency agreement should be written and executed with the appropriate agency detailing each party's obligation and responsibility. Without such agreements, the lead agency (DHS) cannot ensure the grant terms are being adhered to.

The Bureau reviewed two Central Management grants and the related six interagency agreements. Five of the six were signed after the period of performance when work had begun, and one was not yet executed.

**Recommendation:**

3. Execute interagency agreements prior to period of performance to ensure responsibilities are detailed before the start of work.

**Management's Response:**

The Department concurs and similar to the contract process, will execute interagency agreements prior to the start of work.

**Responsible Party:**

Maureen Wu, Chief Financial Officer

**Anticipated Completion Date:**

July 2017

**Develop Risk Assessment Methodology to Determine level of Sub-recipient oversight**

A risk assessment assists management to determine the nature, timing and extent of required oversight. It should incorporate factors such as program experience, staff turnover, prior compliance issues and audit or previous monitoring findings.

OMB Circular A-133, Part 3, Section M, states that sub-recipients may be evaluated as higher risk or lower risk for closer monitoring. It advises that a recipient conduct regular reporting, perform site visits, and maintain contact with sub-recipients to provide reasonable assurance that Federal awards are administered in compliance with regulations and grant agreements.

Prior to April 2016, Central Management did not have a policy or procedure in place to assess the sub-recipient risk to assist in determining sufficient monitoring activities. After April 2016 a policy was developed and as of the date of the report, has yet to be disseminated to all the respective program units.

The monitoring of grant sub-recipient is based on federal requirements as defined in the grant documents. For the grants in which monitoring is not specifically stipulated, the awardee must determine a sufficient monitoring level. Without a policy or procedure to address this oversight, there is also increase of resource risk as staff resources may be over-allocated to low risk recipients or under-allocated to high risk recipients. Additionally, the risk of loss of federal funding becomes greater since the monitoring of federal awards will not be compliant with the award stipulations.

**Recommendations:**

4. Communicate policy and conduct risk assessment of sub-recipients.
5. Apply this risk assessment across all program units.

**Management's Response:**

The Department concurs with the recommendation. EOHHS coordinated with EOHHS agencies, including DHS, to develop the risk assessment and related policy. It was partially implemented in July 2016 and will be fully implemented department-wide by October 31, 2016.

**Responsible Party:**

Kim Rauch, Acting Administrator, Financial Management

**Anticipated Completion Date:**

October 31, 2016

**Improve Procedures for Collection, Review, and Follow-up of Provider Audit Reports**

OMB Circular A-133 requires sub-recipients expending \$750,000 or more in federal awards per year to have an audit completed within nine months of the end of the audit period. Additionally, federal regulations require that the lead agency of a grant will:

- Monitor the activities of the sub-recipient as necessary to ensure that the sub-award is used for authorized purposes.
- Follow up and ensure that the sub-recipient takes timely and appropriate action on all deficiencies pertaining to the Federal award detected through audits, on-site reviews, and other means.
- Issue a management decision for audit finding pertaining to the Federal award provided to the sub-recipient.

There is no formal policy that stipulates the review and follow up of corrective action at any of the DHS program units. Central Management has developed a provider audit review checklist; however, this checklist has not been deployed across program units. Without appropriate review of independent financial audits, management may be unaware of possible significant deficiencies that increase the misuse of funds risk.

Currently, DHS staff is utilizing an Access database to monitor contracts and manually calculate the threshold. There is limited communication and coordination amongst program units to determine which providers are required to submit audit reports. Therefore, there is no reasonable assurance that providers are compliant with the federal regulations or are taking appropriate corrective action to correct pertinent audit findings.

**Recommendations:**

6. Develop a written policy and procedure for the collection and review of provider audit reports.
7. Consider centralization of this function within EOHHS to ensure federal regulations are met.
8. Grant all program units the ability to update the Central Management Access database until the statewide grant management system is in place.

**Management's Response:**

EOHHS has worked with EOHHS agencies, including DHS to develop the following tasks noted below. Staff are currently working on the site visit task. Within DHS, the collection of audit reports has been centralized and DHS has assigned staff to review audits.

- Collection of all audits meeting the dollar threshold for EOHHS sub-recipients;
- Review of all applicable audits using a standard checklist;
- Performance of site visits to follow up on corrective action plans for a judgmental sample of sub-recipients, based upon our evaluation of the findings in the Single Audits (per the documentation in the standard checklists);
- Writing up the results of the site visits; and
- Drafting the required Management Decisions.

**Responsible Party:**

Kim Rauch, Acting Administrator, Financial Management

**Anticipated Completion Date:**

September 30, 2016

### 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. DHS has a lack of formal policies and operating procedures that are distributed and shared across divisions, including the following:

- Drawdowns
- Collection and Review of Provider Audit Reports
- Monitoring of budget to actual expenditures
- Contract payment approval

A lack of policies and procedures may result in an inconsistency in the frequency and performance of processes. Further, without documented policies and procedures there is potential for noncompliance with federal regulations. During our review, fiscal and policy administrators at DHS Central Management provided some newly developed policies and procedures.

#### **Recommendation:**

9. Develop and disseminate policies and procedures in order to standardize processes amongst staff.

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

The Department concurs with the need for the development and dissemination of policies and procedures. The Department reassigned staff into key fiscal positions for each federal grant in the fall 2015. In January 2016, fiscal staff were trained regarding the development of projections for the quarterly report processed required by RIGL 37-3-17.1. In addition, procedures were updated to require key fiscal staff to certify grant expenditures. These were small steps of improvement and the Department will continue such improvements following up with formalized policies and procedures.

#### **Responsible Party:**

Maureen Wu, Chief Financial Officer

#### **Anticipated Completion Date:**

June 2017

## Division of Veterans Affairs

### Timely File the VA New Resident Per Diem Applications to Maximize Revenue

Upon admission of a veteran to the State Veterans Home, per diem<sup>7</sup> application forms are submitted to the Veterans Administration (VA) medical center. According to federal regulation, these forms must be received within ten (10) days of admission in order for the VA to approve payment of the per diem from the first day of admission. Otherwise, per diem payments will be approved based on the date that the complete and correct copies of the forms are received by the VA.

Applications submissions are divided among the business office and social service staff. Also, a lack of standard operating procedures has resulted in delayed submissions to the VA. Our sample of 41 new per diem applications found:

- 34 were not submitted within ten (10) days of admission.

Therefore, the per diem payment was not authorized from the date of admission, but rather on the date received by the VA. The submission delay resulted in a loss of \$107,000 per diem revenue<sup>8</sup> for the RI Veterans Home.

#### **Recommendation:**

10. Timely submit applications to the VA and establish standard operating procedures, which include the assignment of the responsibility to the appropriate staff.

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

The Administrator concurs with the finding. There is no one person whose sole responsibility is to ensure timely submission and tracking of the application through the different offices for completion. Since the calculated value of the lost per diem far exceeds the cost of a clerical FTE, the Home will reclassify an FTE to a clerical position. In the meantime, the Administrator will review any late applications to determine bottlenecks and implement corrective actions if possible.

#### **Responsible Party:**

Rick Baccus, Administrator, RI Veterans Home

#### **Anticipated Completion Date:**

August 1, 2016 – Commence review of late applications.

December 1, 2016 – FTE assigned; action plan fully implemented.

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<sup>7</sup> The Veterans Administration provides State Veterans Homes with Federal assistance by paying per day ("per diem") for the cost of care of eligible veterans.

<sup>8</sup> The period of review was August 1, 2015, through February 29, 2016.

## Division of Elderly Affairs

### Pay Sub-recipients on a Reimbursement Basis

The division's contract terms state providers are required to submit quarterly payment requests and financial reports detailing grant expenditures by budget category during the reporting period. The federal US Department of Health and Human Services (HHS) allows for advancements of funds if certain conditions are met. These conditions include:

- Written procedures to minimize time elapsing between the transfer of funds and disbursement by non-federal entity.
- Financial management systems that meet standards for fund control and accountability.
- Payments must be reasonably consistent with expenditures for the timeframe.
- A review of cash on hand at the contractor is done periodically.

DEA has not implemented all of the above-referenced requirements to properly advance payments. Providers have been allowed to submit and receive approval of invoices prior to the period of performance. The testing of DEA grants invoices noted 19 out of 24 invoice payments were made prior to the period of performance.

#### **Recommendation:**

11. Pay sub-recipients on a reimbursement basis as contracts are executed going forward and amend the contract language to align with this payment method.

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

The Department implemented the requirement for documentation for all reimbursement-based contracts effective June 2016 services. In accordance with this requirement, DEA began enforcing reimbursement of funds during the last invoicing period of State Fiscal Year 2016. DEA will ensure all payments processed moving forward will be on a reimbursement basis. DEA will update contract language to clarify payments will be processed on a reimbursement basis.

#### **Responsible Party:**

David Alves, Chief Human Services Business Officer

#### **Anticipated Completion Date:**

Effective July 1, 2016

## Office of Rehabilitation Services

### Improve Monitoring of Federal Regulations and Award Letters

When the State is awarded a federal grant, an award letter is issued summarizing some applicable key elements for grant compliance, including match<sup>9</sup> requirements. These award letters should be reviewed upon receipt to ensure that grant requirements have not changed from the previous year.

ORS is not reviewing the federal regulations and grant award letters to monitor funding changes. This could affect the State's ability to meet a match or a program requirement, and potentially require the state to return awarded funds to the federal government.

ORS has eight grants with match requirements; we found one grant that had a match requirement that changed from federal year 2013 to 2014--ORS was unaware of the change. When ORS submitted the final 2014 report to the federal government,<sup>10</sup> the awarding agency informed ORS that funds would need to be returned if the match was not met. ORS conducted a thorough review of its data to provide support for the match and revised its federal report.

Also, in another grant match tested, a match was initially calculated incorrectly; this was subsequently identified by the fiscal supervisor and corrected before the final report was submitted.

#### **Recommendations:**

12. Monitor the federal regulations and award letters for funding requirements.
13. Require staff to attend Grant Management training sessions.

**Management's Responses:** Procedures have been put into place to address the above as follows:

1. Award letters are now provided to fiscal staff in their entirety and read to ensure any changes in policy are noted prior to expending funds.
2. Processes have been put into effect so required match and MOE is documented when the award begins.
3. Procedures for filing reports have been written and approved by RSA to avoid future issues.
4. Reports and backup are now reviewed by another fiscal staff member for accuracy before submission.

**Responsible Party:** Carol Mattson, Chief Human Services Business Officer

**Anticipated Completion Date:** August 1, 2016

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<sup>9</sup> Match is the non-federal share of costs that the grantee or the grantee's partners are required to contribute to accomplish the purposes of the grant.

<sup>10</sup> Per Federal requirements, for this grant, ORS had until September 30, 2015 to submit its final report.

## Objective and Scope

The Bureau of Audits (Bureau) conducted a limited scope audit of the Department of Human Services contract management practices in place during fiscal year 2016 at the request of the Executive Office of Health and Human Services (EOHHS). The purpose of the engagement was to determine if DHS administers its grants and associated 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.

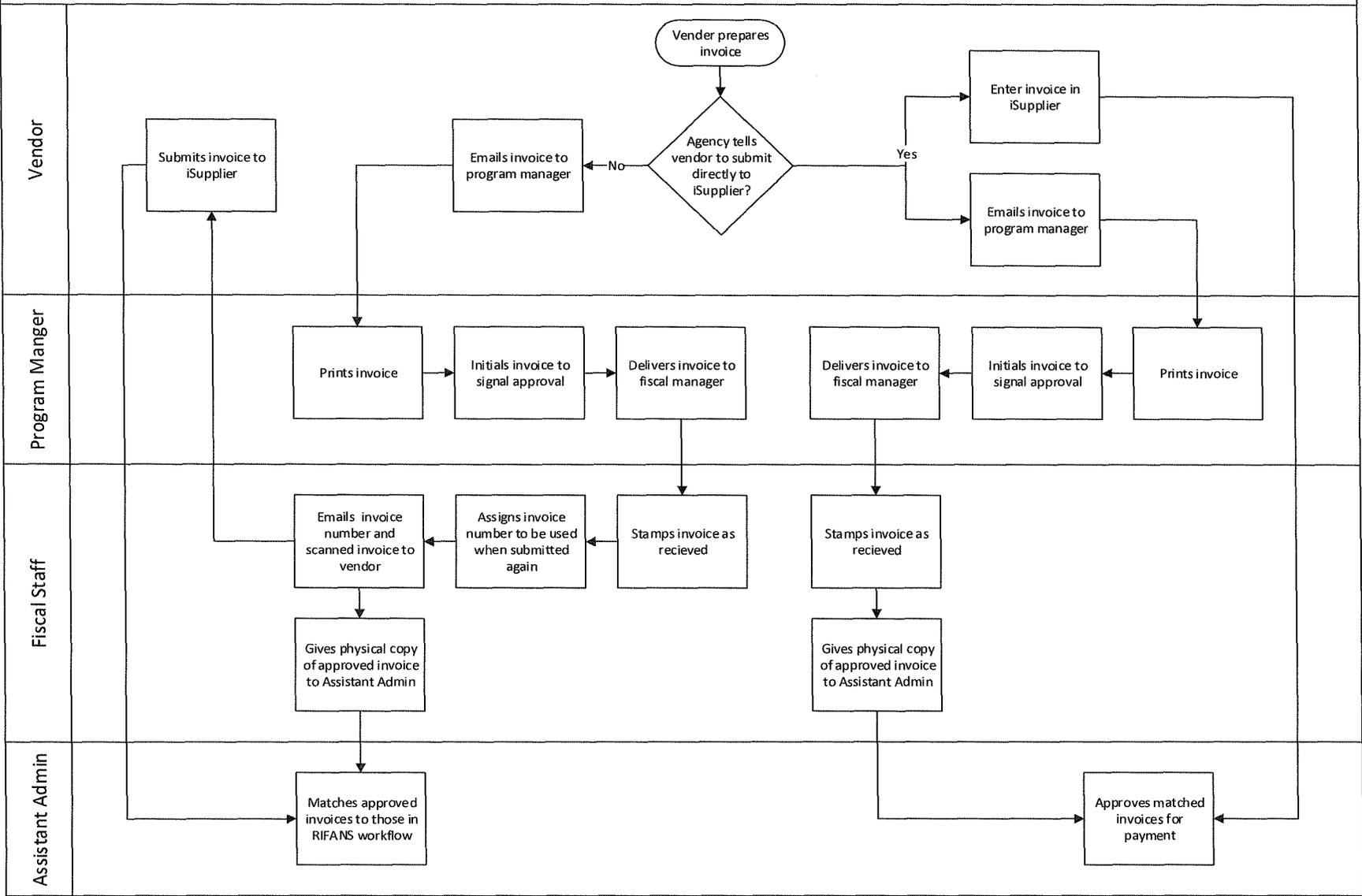
## Methodology

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

- Interviewed personnel, including financial management and program staff.
- Tested for contract compliance.
- Sampled expenditures associated with contracts reviewed.
- Reviewed drawdown and federal financial reporting procedures.

# Appendix A

## Invoice Approval Process Using iSupplier



# Invoice Approval Process when Emailed

