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Office of Management and Budget
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October 21, 2016

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Director
Rhode Island Department of Health
Three Capitol Hill, Room 401
Providence, RI 02908

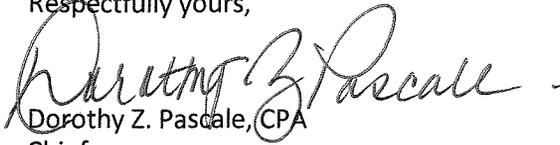
Dear Director Alexander-Scott:

The Office of Internal Audit has completed its audit of the Department of Health Grant Management Practices. The audit was conducted in conformance with the Institute of Internal Auditors (IAA) International Standards for the Professional Practice of Internal Auditing and by the authority given to the unit as stated in accordance with Rhode Island General Laws (RIGL) §35-7.1-1 - Establishment of office of internal audit. The recommendations included herein have been discussed with members of management, and we considered their comments in the preparation of this report.

RIGL §35-7.1-10 (d), entitled Annual and interim reports, states that, "(d) Within twenty (20) calendar days following the date of the issuance of the management response copy of the draft audit report, the head of the department, agency, public body or private entity audited shall respond in writing to each recommendation made in the audit report." Accordingly, management submitted its response to the audit findings and recommendations on October 7, 2016, and such response is included in this report. Pursuant to this statute, the Office 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 Lori Zelano 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—Jonathan Womer, Director, Office of Management and Budget
Erik Godwin, Director, Office of Regulatory Reform
Honorable Daniel DaPonte, Chairperson, Senate Committee on Finance
Lori Zelano, Department of Health

AUDIT Executive Summary

Why the Office of Internal Audit Performed this Audit

The purpose of this engagement is to determine if the Department of Health's fiscal management processes and service provider contracts are being administered in accordance with State procedures, and with adequate controls to ensure accurate reporting and safeguarding of assets.

Background Information

The Department of Health embraces multi-faceted and broad-ranging public health responsibilities at the state and local level. Its mission is "to prevent disease and to protect and promote the health and safety of the people of Rhode Island."

The Department's programs are based upon five health strategies to drive success in accomplishing their strategic priorities:

- Promote healthy living through all stages of life.
- Ensure access to safe food, water and quality environments in all communities.
- Promote a comprehensive health system that a person can navigate, access and afford.
- Prevent, investigate, control and eliminate health hazards and emergent threats.
- Analyze and communicate data to improve the public's health.

To Improve Controls, the Office of Internal Audit Recommends:

- Formalize grant and financial oversight procedures.
- Perform and document draw-down reconciliation prior to close out of federal awards.
- Improve record-keeping procedures for salaries and wages expenses charged to federal grant accounts.
- Consider adopting a batch payment process for certain sub-recipient payments.

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Introduction

The Mission of the Rhode Island Department of Health (DOH) is “to prevent disease and to protect and promote the health and safety of the people of Rhode Island.” As there are no local public health agencies in Rhode Island, all public health services are managed by the State Department of Health.

DOH has been organized into six operating units overseen administratively by the Central Management Division. Operating units include:

- The Division of Policy, Information and Communication
- State Health Laboratories and Medical Examiner
- The Preparedness, Response, Infectious Disease and Emergency Medical Services
- Community Health and Equity
- Environmental Health
- Customer Services

Audited expenditures in FY 2015 were \$111.4M with \$57.7M (52%) derived from federal sources. The proposed budget for FY 2017 increases to \$163.3M with \$100.4M (61%) derived from federal sources. As such, a large portion of the operating budget of the agency comes from federal sources; it is critical that strong grant management practices are in place to comply with applicable federal and program regulations.

Background

The Department of Health is awaiting the roll out of a state-wide grants management information system. This initiative will include state-wide policies for grants management promulgated by the State Office of Grants Management.

In the interim, it has designed processes using the State’s accounting system, along with manual tracking spreadsheets, to oversee and monitor the receipt and expense of federal funds.

Specifically, the State accounting system is not designed to differentiate between grant fiscal years. As a result, all grant expenses are charged to a single account code. These expenses are reviewed monthly and segregated into the appropriate grant year by designated Financial Liaisons who work with program managers to oversee Federal Awards.

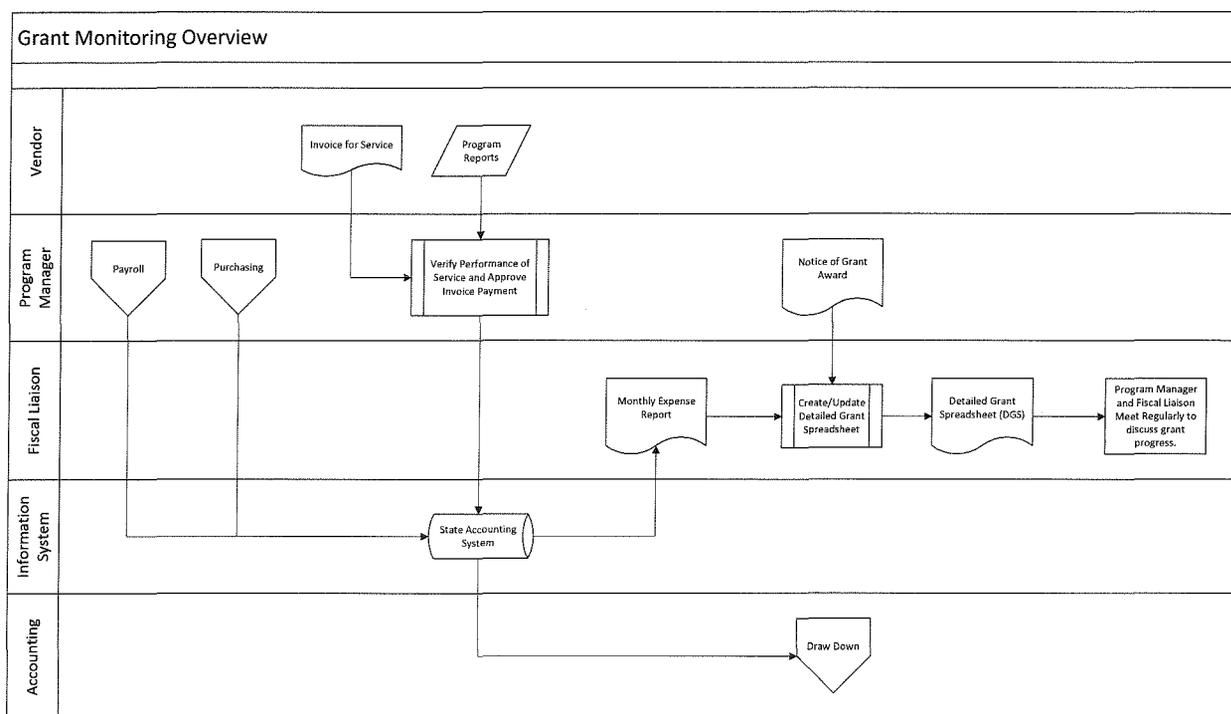
These liaisons assist in preparing monthly Grant Tracking Sheets (GTS) which categorically break down all grant expenses for review. These tracking spreadsheets are the basis for the grant financial oversight structure at DOH. They provide a mechanism to:

- Review salaries charged
- Monitor award spend-down
- Calculate indirect costs
- Allocate expenses between grant award years
- Verify accuracy of cash draw-downs

Financial liaisons meet periodically with program managers to review grant progress, monitor expense budget and assist with grant compliance issues.

The Department has a system of oversight in place which assures that contractors provide adequate services prior to payment. For all sixteen contracts reviewed during our audit, DOH acquired programmatic reports from vendors which provide details about provided agreed-upon services. Additionally, all sampled invoices were reviewed by program administrators in conjunction with the programmatic reports prior to issuing payment.

The Office prepared a process diagram which describes the grants financial management process in place at DOH which is depicted below.



Recommendations for Improved Controls

Although the Office found an effective system of programmatic and financial oversight for federal grants, the Office identified the following areas in which procedure may be strengthened to improve Federal Grant Administration:

Standardize and Communicate Entity-Wide Procedures

Federal grant administration is subject to regulations promulgated in section 200 of the Code of Federal Regulations (CFR) which states in pertinent part:

The non-federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-federal entity is

managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the federal award.

Documented policies and procedures are the foundation of any formal management control system. They provide a basis for organized operations by defining responsibilities, establishing work processes and promoting uniformity of operations among staff. They also establish a foundation for succession planning and continuity of operations in the event of unexpected employee absences.

The grant administration process requires a detailed working knowledge of DOH's various forms and understanding of the interplay of documents that support the financial monitoring process. The practices for financial monitoring are supported primarily by staff knowledge obtained on the job.

Management has implemented financial monitoring practices; however, these practices have not been formalized through documented policies and procedures. The tracking templates used to support management in performing financial monitoring varied between departmental personnel.

Oversight would be improved by standardizing procedures and communicating these procedures through periodic training.

Recommendations:

1. Reinforce grant financial oversight procedures by implementing written entity-wide procedures which include assigned responsible parties and periodic training,

Management Response: *The department will develop written grant oversight policies and procedures and provide initial training to finance and operations staff, and to new staff on an as-needed basis based on assessment and review of grant tracking spreadsheets. The department will implement a standardized grant management tracking sheet to be used department-wide for financial monitoring.*

Responsible Party: *Carla Lundquist, Federal Grants Manager Lead, and Lori Zelano, Chief Financial Officer.*

Anticipated Completion Date: *Anticipated completion of the written policies and procedures along with inclusion of the training plan will be January 1, 2017. The implementation of a standardized grant management tracking sheet will be effective November 1, 2016, as a rolling basis for when new grant budget periods begin.*

Improve Procedures for Personnel Expense Records

Personnel expenses charged to federal grants must comply with regulations outlined in 2CFR200.430. These regulations require that personnel charges:

Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated. Budget estimates alone do not

qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that [documentation supporting the allocation of the charges]:

- *Be incorporated into the official records of the non-federal entity;*
- *Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; and [Is used to] review after-the-fact interim charges made to a Federal awards based on budget estimates [and] all necessary adjustment [are] made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated.*

DOH does not have a formally documented, entity-wide procedure related to documentation of time and effort recording. The State of Rhode Island is moving towards a state-wide time and effort reporting system. The DOH is in a position to standardize practices to reflect employee time and effort to match work performed in a work day in preparation for the state-wide time and effort keeping system.

Time and effort recording practices vary between departments within DOH. Time sheets in certain departments are designed to allocate hours worked according to the assigned budget, rather than permitting the employees to track actual time dedicated to projects. Out of a sample of 17 time charges, the Office found 11 instances in which time sheets automatically calculated predetermined allocations for employee work time. This process does not meet the documentation requirements mandated by Federal regulations for salaries and wages.

The Office also found two instances in which time reported on time sheets did not substantially match payroll allocations. In these instances, the awardee is required to make retroactive adjustments to grant charges to reflect actual effort dedicated to the grant.

Once these procedures are created the best practice for implementation would be to update procedure as necessary and train staff periodically.

Recommendations:

2. Document standard procedures for recording actual time worked on each grant project.
3. Implement a process for periodic review of after-the-fact interim personnel charges to Federal Grant Accounts.
4. Perform staff training related to federal *Standards for Documentation of Personnel Expenses*.¹

Management Response: *The department will develop written policies and procedures to implement a standardized time and effort system for establishing reasonable approximations of the activity actually performed. The policy and procedures will identify the process for determining significant changes in the activity performed and will include a timely review and reconciliation for long term fluctuation on*

¹ 2 CFR §200.430(i)

worked performed under Federal awards, along with addressing the short term fluctuation of work performed according to the regulations outlined in 2CFR200.430.

The department's policies and procedures will create a system of internal controls to review after-the-fact interim charges made to a Federal awards based on budget estimates. Necessary adjustments will be made to ensure charges to Federal awards are accurate and allowable.

Time and effort training will be provided to staff related to the federal Standards for Documentation of Personnel Expenses.¹

Responsible Party: Lori Zelano, Chief Financial Officer, Carla Lundquist, Federal Grants Manager Lead, Steve Boudreau, Chief Administrative Officer and Department Finance and Operations Liaisons.

Anticipated Completion Date: Anticipated completion of the written policies and procedures along with inclusion of the training plan will be March 1, 2017.

Implement Draw-Down Reconciliation Procedures Prior to Grant Close Out

Federal grants generally operate on a reimbursement basis. This means that State funds are first expended to carry out the program. Subsequently, at regular intervals, the grantee requests cash disbursements through the federal information system for the expenses made in support of the grant objective. This is known as drawing down federal funds. All cash drawn down for expenses must be made during the eligibility period for the grant.

DOH prepares internal grant tracking reports monthly about their grants which allocate expenditures to appropriate grant years and grant accounts; because this is a manual process, the reports are prepared one month in arrears. As a result, monthly draw-downs are based directly upon cash expended to date in the grant account via a "cash resource report." This report does not distinguish between grant award years; all funds are drawn from the most recent award year. In subsequent months, the cash draws are compared to the Grants Tracking Sheet to true-up cash draws to the appropriate grant year.

Due to this process, a full reconciliation is not possible until expenditures cease, which does not occur until final close out of the grant. At this point, final financial reports must be filed with the awarding federal agency which detail the grant revenues and expenses from inception to final expenditure. The awarding federal agency compares this report with cash draws in the federal payment system to ensure accuracy; it is important that the correct figures are reported to the federal awarding agency.

Fiscal management does not perform a reconciliation of draw-downs prior to grant close out. DOH files annual federal financial reports without reconciling expenses to draw-downs reported in their internal grant tracking reports. Since the draw-down amounts are not reconciled prior to annual federal financial reporting, DOH lacks assurance that federal reports accurately reflect revenues and expenses during the grant period.

Recommendations:

5. Perform reconciliation of grant draw-downs against final Federal Financial Reports and internal grant tracking reports periodically, and at grant close-out.
6. Retain a record of the reconciliation documents in grant files.

Management Response: The department will develop written policies and procedures on the implementation of performing reconciliation of grant draw-downs against final Federal Financial Reports and internal grant tracking reports periodically, and at grant close-out. The department has already implemented a process for ensuring the federal financial report reconciles with the payment management system by requiring a print out of the payment management system to accompany the report prior to signature. This process, along with periodic reviews, will be included in the written policies and procedures.

Responsible Party: Lori Zelano, Chief Financial Officer, Carla Lundquist, Federal Grants Manager Lead, and Alisha Colella, Department Operations and Finance Liaison.

Anticipated Completion Date: December 1, 2016

Consider the Batch Payment Processing for Certain Grant Distributions

DOH receives federal funding for emergency preparedness which must be distributed to each city and town across the state. Each town receives less than \$4,000. In order to make these payments, DOH has annually completed contracts with each city or town in addition to issuing a standard purchase order for payment. This process requires significant time and effort by contract managers each year to update contract language and complete purchase requisitions.

In order to maximize resources, business processes must be designed and implemented efficiently. The State of Rhode Island has various cash disbursement mechanisms available to management. Multi-year contracts are written to accommodate long-term and recurring agreements between the State and its business associates. Batch payments are used to make a large volume of small payments quickly and efficiently.

Recommendation:

7. Consider using multi-year contracts for grants with recurring distributions under similar grant terms. Execute addendums to the agreements as necessary.
8. Consider using the centralized batch import process to distribute funding for CDC Emergency Preparedness grant funds to cities and towns.

Management Response: The department will assess the existing contracts to determine which contracts are long-term and recurring with similar grant terms and will pursue using multi-year contracts through executing addendums to the agreements as allowable and necessary.

In addition, the department will implement a centralized batch import process to distribute funding for CDC Emergency Preparedness grant funds to cities and towns.

Responsible Party: Ariana Delfino, Purchasing Lead Administrator, Operations and Finance

Anticipated Completion Date: The assessment to determine which contracts meet the criteria of implementing multi-year contracts will be determined by December 1, 2016. The implementation of requesting the multi-year contract or processing a batch payment to distribute Emergency Preparedness grant funds to cities and towns will be dependent on the contract renewal date.

Objective and Scope

The Office of Internal Audit (“Office”) conducted an audit of grant financial controls at the Department of Health. The purpose of this engagement is to determine if DOH's fiscal management processes and service provider contracts are being administered efficiently and effectively in accordance with contracts requirements, statutes and state procedures, and with adequate controls to ensure safeguarding of assets and accurate reporting.

Methodology

This audit was conducted in conformance with Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing*. As part of our audit work, we gained an understanding of the existing controls over grant financial oversight. To address our audit objective, we performed the following:

- Reviewed financial transactions from 16 Federal Grants and one Federal Service Contract.
- Reviewed contract files associated with federal grants.
- Met with management personnel and program staff to discuss the grants management process.
- Prepared process diagrams of the grants management processes at DOH.
- Performed walk-throughs of the draw-down, contracting and financial oversight processes.
- Verified indirect cost charges to federal grants.
- Reviewed time sheets and personnel charges to federal grant accounts.