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June 24, 2014

Colonel Steven O'Donnell
Superintendent
Rhode Island State Police
311 Danielson Pike
North Scituate, RI 02857-1907

Dear Colonel O'Donnell:

The Bureau of Audits (Bureau) has completed its review of the Rhode Island State Police (State Police) compliance with the Commission on Accreditation for Law Enforcement Agencies (CALEA) fiscal management and agency owned property accreditation standards. Our review was conducted in accordance with Rhode Island General Laws (RIGL) §35-7-3. The findings and recommendations included herein have been discussed with management, and we have considered their comments in the preparation of our report.

RIGL §35-7-3(b) entitled, "Audits performed by the bureau of audits," states that "Within twenty (20) days following the date of the issuance of the final audit report, the head of the department, agency or private entity audited shall respond in writing to each recommendation made in the final audit report..." Accordingly, management submitted its response to the audit findings and recommendations on June 17, 2014, and such response is included in this report.

In accordance with RIGL §35-7-3(b), the Bureau may follow up on recommendations included in our reports within one year following the date of issuance of the report.

We would like to take this opportunity to express our appreciation to the officials and employees of the Rhode Island State Police for the cooperation extended to the members of our staff during the course of this review.

Respectfully yours,

Dorothy Z. Pascale, CPA, CFF
Chief

c--Richard A. Licht, Director, Department of Administration
Kenneth Kirsch, Deputy Director, Department of Administration
Peter Marino, Director, Office of Management and Budget, Department of Administration
Honorable Daniel DaPonte, Chairperson, Senate Committee on Finance
Honorable Raymond Gallison, Chairperson, House Finance Committee
Dennis Hoyle, CPA, Auditor General



Audit Executive Summary

Why the Bureau did this Review

The Bureau conducted a limited scope audit of the Rhode Island State Police (RISP) compliance with fiscal management and agency owned property accreditation standards for the period January 1, 2011, to December 31, 2013. The audit was conducted at the request of the RISP to determine compliance with the fiscal management and agency owned property standards promulgated by the Commission for Accreditation of Law Enforcement Agencies (CALEA).

What the Bureau Found

We found that RISP were in substantial compliance with the CALEA fiscal management and agency owned property standards.

What the Bureau Recommends

Although we found that the RISP substantially complied with the CALEA standards, we recommend the following to improve the control environment and increase operational efficiency:

- Improve compliance with procurement regulations including sole source requirements
- Verify invoice prices are consistent with master price agreements and contracts
- Review monthly account expenditure reports
- Reconcile confidential imprest cash at least quarterly

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Objective

The audit objective was to determine the RISP level of compliance with Chapter 17 “Fiscal Management and Agency Owned Property” of the CALEA Accreditation Standards. The audit was performed in anticipation of the scheduled 2014 CALEA accreditation review.

Scope

The audit scope was limited to RISP fiscal management and agency property controls related to Chapter 17 of the CALEA Standards. The standards focus specifically on accounting system requirements, budgeting, cash management, inventory and equipment controls, and purchasing. The Transactions recorded for the period January 1, 2011, to December 31, 2013, was the focus of our testing.

Methodology

To accomplish the audit objective, the Bureau:

- Reviewed CALEA Chapter 17 “Fiscal Management and Agency Owned Property”
- Identified the state laws, regulations, policies, and procedures applicable to State Police fiscal management and property
- Identified and tested selected internal controls over RISP fiscal management and property
- Interviewed responsible staff
- Conducted walkthroughs and assessed the effectiveness of fiscal management and property management processes
- Sampled recorded expenditures to determine compliance with State procurement regulations and policies
- Reviewed monitoring activities related to the agency’s budget
- Sampled disbursements from the confidential imprest cash bank account to determine compliance with State policies and internal procedures and general orders
- Sampled receipts and disbursements of confiscated cash to verify they were properly recorded in the State accounting system and complied with internal general orders
- Sampled agency owned fixed assets and equipment to test the effectiveness of the internal controls
- Assessed the adequacy of the agency’s existing policies and procedures related to fiscal management and agency owned property

Standards Compliance, Recommendations and Management’s Response

The following section of this report summarizes the RISP compliance efforts with each of CALEA standards that cover fiscal management and agency owned property, makes recommendations for improved control, and presents a response from RISP management for each of the recommendations made. It is the Bureau’s opinion that the RISP are substantially compliant with the requirements of Chapter 17 of the CALEA Standards

CALEA Standard 17.1.1

The agency's chief executive officer is designated as having the authority and responsibility for the fiscal management of the agency, either through a written statement issued by the government or by a law or ordinance, or by a combination of the two.

[CALEA]Commentary: *Although fiscal management functions may be delegated to a designated function or component, the agency's chief executive officer should have the ultimate authority and accountability over all fiscal matters of the agency.*

Standard Compliance

Rhode Island General Laws §42-7.3-5 and §42-7.3-6 established the position of Superintendent of the Rhode Island State Police and make the Superintendent responsible for “the quality, the accountability and the efficiency of state-administered public safety services.”

CALEA Standard 17.2.1

A written directive describes the agency's internal budget process and assigns the responsibility for budget preparation and management within the agency.

[CALEA]Commentary: *The agency may determine its own method of budgeting. Even though many agencies must comply with budget process requirements, including reporting deadlines, reporting procedures, etc., established by other governmental agencies, this standard is intended to document the agency's internal procedures for uniformity and clarity. The written directive should describe the agency's internal deadlines for scheduled activities, types and use of forms, even if those forms are provided by another governmental agency.*

Standard Compliance

RISP is required to comply with budgeting directives as administered by the Rhode Island Office of Management and Budget. Additionally the RISP has issued General Orders that designate the Superintendent as having the ultimate responsibility for the operating budget and include the specific budget requirements as outlined in the commentary to this standard.

CALEA Standard 17.2.2

Major components within the agency annually prepare written budget recommendations.

[CALEA]Commentary: *Commanding officers should be held accountable for those portions of the agency's budget that relate to their functions. For purposes of this standard, a "major component" is a bureau, division, or other component depicted on the organizational chart as the first or second level below the agency's CEO, or the CEO may designate the organizational levels or functions for participation.*

Standard Compliance

RISP has a process that requires unit commanders to prepare and submit budget recommendations annually. Unit commanders are required to prioritize agency operations and set financial and operational goals; they also participate in the budget formation and presentation process.

CALEA Standard 17.3.1

A written directive governs procedures for the requisition and purchase of agency equipment and supplies to include, at a minimum:

- a. specifications for items requiring standardized purchases,*
- b. bidding procedures,*
- c. criteria for the selection of vendors and bidders,*
- d. procedures for the emergency purchasing or rental agreements for equipment, and*
- e. procedures for requesting supplemental or emergency appropriation and fund transfer.*

[CALEA]Commentary: *The intent of the standard is to establish formal procedures for controlling the requisitioning and purchasing of agency supplies and equipment. The standard may be satisfied through evidence of the use of a purchasing procedure in general use by the government, provided the conditions included in the standard are met.*

Standard Compliance

RISP follows the State of Rhode Island's purchasing policies and procedures. The procurement regulations have been developed to provide a framework for implementation of Rhode Island General Law (RIGL) §37-2. The State of Rhode Island's purchasing policies and procedures include all requirements outlined in standard 17.3.1. However, testing of RISP compliance with the State of Rhode Island's purchasing policies and procedures revealed control weaknesses in the areas of procurement procedure and invoice approval.

Procurement Procedure

Purchase orders and requisitions are used to obtain approval from the Division of Purchases to procure a good or service and to encumber the funds required for payment from the agency's appropriated balance. An encumbrance ensures the funds are available for payment until the goods or services, and invoices, are received. In several instances, RISP obtained goods and services from vendors prior to creating a purchase order or requisition.

Procurement regulations require the Division of Purchases to approve all sole source¹ procurements prior to an agency obtaining goods and services.² We found two instances where RISP obtained goods or services from sole source vendors prior to Division of Purchases approval. Division of Purchases cannot monitor compliance with procurement regulations without timely submission of purchase requisitions and sole source justifications.

The Rhode Island Division of Purchases establishes Master Price Agreements (MPAs) with various vendors for the procurement of commonly used goods and services. All state agencies are expected to utilize these MPAs. Our audit found instances where RISP failed to use MPA vendors for the procurement of goods covered by a MPA. Additionally, we found instances whereby the MPA vendor provided goods or services in a manner not prescribed by the MPA terms.

¹ A sole source purchase is one in which it has been by state purchasing in writing that there is only one source for the required supply, service, or construction item.

² *State of Rhode Island Procurement Regulations*, Section 9 "Exceptions to Competitive Bidding Requirements." December 2011.

Recommendations

1. Create requisitions and purchase orders prior to obtaining goods and services from vendors.
2. Procure sole source goods and services in accordance with procurement regulations and policies.
3. Utilize the MPA agreements when applicable and comply with the procedures contained in these agreements.

Management Response: As a result of the above recommendations made by bureau auditors, a global email was issued by the Division’s Chief Administrative Officer as a reminder to all Division members to adhere to Rhode Island State Police General Orders, 7-B and 7-C titled, “Purchasing Requests” and “Emergency Procurement”. Adhering to the aforementioned General Orders will ensure compliance with procurement rules and regulations.

Anticipated Completion Date: This corrective action was completed on June 12, 2104.

Contact Person: Major David P. Tikoian, Chief Administrative Officer.

Invoice Review and Approval

MPA 166 establishes contractual rates for oil and gas and related repair and maintenance services. We found five occasions during the period September 2011-February 2012 in which a vendor did not charge rates for propane in accordance with MPA 166. RISP approved the vendor’s invoices for payment without verifying compliance with MPA 166 terms. RISP was overcharged a total of \$1,274.70 for the period. The vendor did not provide the supporting documentation relative to the price charged as required by the MPA. Therefore, the invoices were paid without the proper level of index value verification required by the MPA terms. RISP paid an invoice from the same vendor with the description “Miscellaneous fee \$300.” This is not a valid description per MPA 166 terms, and we cannot determine the basis for this fee.

The exceptions noted above resulted in the Bureau conducting a separate audit of all invoices submitted by this propane vendor. We have requested the propane vendor refund the amount overcharged to RISP, as well as other state agencies.

Note: The Bureau previously identified the invoice approval deficiency and this vendor for overcharging RISP during the June 30, 2011, audit.

Recommendation

4. Review all invoices submitted for payment, and document the appropriateness of any miscellaneous charges.

Management Response:

The Director of Finance and Central Management will review finding for “Invoice Review and Approval” related to CALEA Standard 17.3.1 with staff, ensure all staff are properly trained and put into place policies and procedures for the review of invoices prior to payment.

Anticipated Completion Date: June 2014

Contact Person: Carmela Barone Corte, Director of Finance and Central Management

CALEA Standard 17.4.1

17.4.1 The agency has an accounting system that includes approval of each account and, at a minimum, provision for monthly status reports showing:

- a. initial appropriation for each account (or program),*
- b. balances at the commencement of the monthly period,*
- c. expenditures and encumbrances made during the period, and*
- d. unencumbered balance.*

[CALEA]Commentary: *This standard applies to all functions and components in the agency. The CEO should authorize all accounts or funds within the agency. The accounting system should be compatible with, or may be a part of, the central accounting system of the governing jurisdiction. It is essential that the agency establish such a system to ensure an orderly, accurate, and complete documentation of the flow of funds. Each appropriation and expenditure should be classified, at a minimum, according to function, organizational component, activity, object, and program. Data-processing systems can facilitate rapid retrieval of information on the status of appropriations and expenditures any time the information is required. It is intended that each function retain its autonomy over operation of its account or fund but that there are uniform guidelines for management and oversight of each.*

Standard Compliance

RISP follows the account opening rules as established by the Division of Accounts and Control, as well as the Office of Management and Budget. The State's accounting and budgetary rules provide for, at a minimum, all items listed in the standard

CALEA Standard 17.4.2

A written directive lists all cash funds or accounts where agency personnel are permitted to receive, maintain, or disburse cash and govern the maintenance of those accounts. The written directive includes, at a minimum:

- a. a balance sheet, ledger, or other system that identifies initial balance, credits (cash income received), debits (cash disbursed), and the balance on hand;*
- b. receipts or documentation for cash received;*
- c. authorization for cash disbursement, including CEO authorization for expenses in excess of a given amount;*
- d. records, documentation, or invoice requirements for cash expenditures;*
- e. persons or positions authorized to disburse or accept cash; and*
- f. quarterly accounting of agency cash activities.*

[CALEA]Commentary: *It is imperative supervisors closely monitor all cash accounts and that the agency establishes procedures to ensure proper handling of all cash. These procedures are inclusive of petty cash funds, cash received in records, investigative funds (see standard 43.1.3 in reference to budgeting of confidential funds), and all other instances where cash funds are maintained or cash is received or disbursed.*

Standard Compliance

RISP has cash control policies and procedures in place that comply with the standard as outlined above. During our review of cash controls, we identified an opportunity to improve controls during the reconciliation process for the confidential cash fund.

Improve Account Reconciliation Process

RISP maintains a confidential imprest cash bank account separate from the general fund. The Intelligence Unit, Narcotics Unit, and Auto Theft Unit use the confidential imprest cash to pay confidential informants. Each of these three units request confidential funds from the confidential imprest bank account and maintain the requested funds in their own unit.

RISP has a procedure in place where the custodian of the confidential imprest cash account reviews and accounts for all disbursements from the fund and subjects each of the units who use the fund to periodic verification procedures. These procedures do not include a reconciliation of the monthly bank statement associated with the fund.

Recommendation

5. Improve the reconciliation of the confidential imprest cash bank account, by including periodic formal bank reconciliation. This bank reconciliation should be performed by an individual separate from the confidential cash disbursement function.

Management Response: The current practice as the Major of Inspectional Services is to complete a Quarterly Confidential Funds Report for the Auto Theft Unit, Intelligence Unit and HIDTA Unit. This report details the beginning balance, specific disbursements and ending balance of their respective unit as it relates to confidential funds. The new practice will be to complete this quarterly report as well as a quarterly meeting with the State Police Finance Director to reconcile the bank statements and subsequent disbursements to each individual unit. Once this is completed a separate report will be completed by the Major of Inspectional Services and filed.

Anticipated Completion Date: The above outlined response will be instituted in next quarterly confidential funds report due in August 2014.

Contact Person: Major James Manni, Inspectional Services Unit.

CALEA Standard 17.4.3

A written directive governs procedures for an independent audit of the agency's fiscal activities.

[CALEA]Commentary: *As a basis for determining the financial integrity of the agency's fiscal control procedures, an independent audit should be conducted at least annually or at a time stipulated by applicable statute or regulation.*

Standard Compliance

RISP accounts are subject to testing during the Rhode Island Auditor General's annual Financial and Single Audit procedures. At the request of RISP, the Bureau performs an audit of controls over fiscal activity triennially.

CALEA Standard 17.5.1

If the inventory and control of agency property is regulated by an outside authority, the agency must meet those guidelines. Absent external controlling directives, the agency has a written directive that establishes internal procedures for inventory and control of agency property and equipment.

[CALEA]Commentary: *This function may be guided by directives or statutes promulgated outside of the agency. If such guidelines do not exist, the agency should adopt procedures that ensure adequate property control.*

Standard Compliance

The Rhode Island Division of Accounts and Control establishes policies and procedures for the inventory and control of depreciable assets. RISP is required to comply with these policies and procedures. In September 2013 an inventory audit was performed jointly by RISP and the Office of Accounts and Control to determine the carrying value of RISP's fixed assets in the state accounting system.

CALEA Standard 17.5.2

A written directive establishes procedures for issuing/reissuing agency property to authorized users.

Standard Compliance

RISP has issued a general order that governs the issuance/reissuing of agency property.

CALEA Standard 17.5.3

A written directive designates that maintaining stored agency property in a state of operational readiness is a responsibility of the person or unit to which the property is assigned.

[CALEA]Commentary: *The property management function is responsible for ensuring that stored items of the agency's equipment, such as radios, handcuffs, batons; and items of special equipment, such as radar, cameras, and closed-circuit TV surveillance devices, are maintained in a state of operational readiness. The term "operational readiness" includes care and cleaning, preventive maintenance, repair, workability, and responsiveness. The operational readiness of equipment should be inspected at regular intervals.*

Standard Compliance

RISP has a general order in place requires proper maintenance of stored property. Individual units are responsible for the operational readiness of their assigned equipment.