

State of Rhode Island and Providence Plantations

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June 20, 2016

Jim Purcell  
Commissioner of Postsecondary Education  
Office of the Postsecondary Commissioner  
560 Jefferson Boulevard, Suite 100  
Warwick, RI 02886-1304

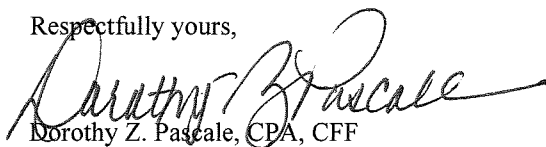
Dear Commissioner Purcell:

The Bureau of Audits has completed its limited scope audit of Rhode Island College. The audit was conducted in accordance with Rhode Island General Laws (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.

RIGL §35-7-3(b), entitled *Audits performed by bureau of audits*, states that, "Within twenty (20) days following the date of issuance of the final audit report, the head of the department, agency or private entity audited shall respond in writing to each recommendation made in the final audit report." Accordingly, management submitted its response to the audit findings and recommendations on June 10, 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 Rhode Island College staff and the Office of the Postsecondary Commissioner for the cooperation and courtesy extended to the members of our team during the course of this audit.

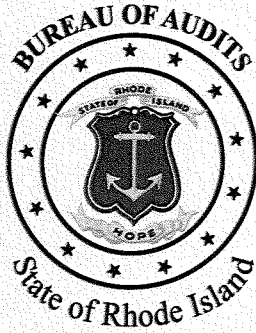
Respectfully yours,



Dorothy Z. Pascale, CPA, CFF  
Chief

c—Internal Audit Advisory Group

Frank Sanchez, President, Rhode Island College  
David Gingerella, Vice President of Administration and Finance, Rhode Island College  
Barbara Cottam, Chair, State Board of Education  
William Foulkes, Chair, Council on Post-Secondary Education  
Honorable Daniel DaPonte, Chairperson, Senate Committee on Finance  
Honorable Marvin L. Abney, Chairperson, House Finance Committee



## Audit Executive Summary

### Why the Bureau Did This Review

The Commissioner for Postsecondary Education requested the Bureau to perform a limited scope audit of Rhode Island College's financial controls and human resource practices.

### Background Information

Public higher education consists of the Board of Education, the Council on Postsecondary Education, and the Office of the Postsecondary Commissioner, as well as three public institutions of higher learning (URI, RIC and CCRI). The Council has general supervisory statutory authority for the public higher education institutions. The statutory authority for administration rests with the institutions.

Rhode Island College was established in 1854 and is the State's first public institution of higher education. The college is divided into five academic schools: the Faculty of Arts and Sciences, the Feinstein School of Education and Human Development, the School of Management, the School of Nursing and the School of Social Work. Rhode Island College enrolls approximately 9,000 students.

### To Strengthen Controls and Mitigate Risks, Rhode Island College should:

- Implement comprehensive formal policies and procedures.
- Improve budgetary planning process for operational and capital expenditures.
- Monitor use of interim appointments.
- Establish a reserve fund for repairs, maintenance and renovation of auxiliary facilities.
- Strengthen communication between sponsored project administrators.
- Identify and segregate various non-education related revenue sources, including state, federal and private grants.
- Increase oversight of purchasing controls.

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## Introduction

Prior to and during the course of this audit, Rhode Island College operated with vacancies<sup>1</sup> and extended interim appointments in key administrative positions, including the vice president of finance and administration, controller and affirmative action director. Staff turnover, along with inadequate policies and procedures discussed in detail below, has contributed to increased risks, inefficiencies and control weaknesses in critical areas including accounting, budgeting, human resources and sponsored project management.

RIC is currently seeking a new president and controller, and has recently appointed a new vice president of administration and finance, budget director and grants director. This change in administration presents an opportune time to identify areas where operating policies and procedures may be implemented to increase efficiency and improve the internal control environment.

The recommendations presented below focus on the human resources and financial management units where operating changes and adoption of formal policies and procedures will provide efficiencies and align the college with best practices.

## Recommendations and Management's Responses

### Human Resource Management

The Office of Human Resources operates in a complex environment with requirements that originate from the Council on Postsecondary Education, institutional practices and collective bargaining agreements. This office has operated with vacancies and interim appointments to key staff positions which has contributed to disruptions in reporting lines to executive management, operational inefficiencies and breakdowns of internal controls.

Objectives of a human resource function include:

- Supporting executive management to meet the strategic goals and objectives related to the workforce.
- Promoting greater transparency, communication and accountability for human resource processes and services.
- Attracting, retaining and engaging a strong and diverse workforce in a supportive environment.

### Reevaluate the Use of Interim Appointments

Interim appointments can be a valuable tool to meet strategic purposes and advance the organization's mission, including providing additional time to conduct a candidate search, deciding upon a new strategic direction before beginning a search and providing leadership during a management crisis. They are not intended to be long-term solutions to human resource staffing issues.

Best practices for interim appointments include documented policies which address:

- Definitions of interim, acting and temporary positions
- Circumstances warranting the use of interim appointments

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<sup>1</sup> Refer to Appendix I for a listing of all interim appointments and vacancies as of March 25, 2016.

- Notification of the vacant positions
- Authority to approve these appointments
- Duration of appointments
- Procedures for performance reviews
- Authority granted to interim positions versus permanent status
- Verification that the individual appointed meets the job specifications and requirements

RIC uses interim appointments, which have lasted for extended period of time, to fill positions, including higher level management positions. As of March 25, 2016, there were 14 interim appointments, 5 of which have been employed for more than one year, and 3 for more than two years. Two vice president positions which have lasted over eighteen months are interim appointments.<sup>2</sup>

There is no requirement for a search committee to actively seek a replacement candidate during interim appointments. The absence of this requirement partially explains why key positions were filled by interim appointees for extended periods of time.

The Council, with the assistance of the Commissioner, is charged with the approval of vice presidents at the college. Since the Council and Commissioner are not charged with reviewing interim appointments, they did not review the qualification of the employees in these interim positions.

*Recommendation to RIC:*

1. Evaluate current interim appointments and initiate search for permanent placements.

*Management's Response:*

- a. The college has been converting some interim appointments to permanent positions (although most searches related to the interim VPs were placed on hold in fall 2015, pending the arrival of a new RIC President). A list of current interim appointments with explanatory notes is attached.
- b. The Office of the Postsecondary Commissioner will request a report on the current status of all interim appointments and a timeline for converting them to permanent status by November 1, 2016. This will allow RIC's new president the ability to shape his own team.

*Responsible Party: David Gingerella, Vice President for Administration & Finance/CFO*

*Anticipated Completion Date: Nov. 30, 2016*

*Recommendations to Council:*

2. Develop policies and procedures for interim appointments compliant with best practices.

*Management's Response:*

The Council on Postsecondary Personnel policy will be revised to provide greater oversight and guidance to the institutions on interim appointments. This will be completed for PSC review by Nov 30, 2016.

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<sup>2</sup> Refer to Appendix I for a complete list of all interim appointments.

*Responsible Party: Jim Purcell, Commissioner*

*Anticipated Completion Date: Nov. 30, 2016*

3. Obtain and review an annual report detailing the use of interim appointments at all state colleges.

*Management's Response:*

The Council on Postsecondary Personnel policy will be revised to include an annual reporting of the status of interim appointments by Nov 30, 2016.

### **Submit All New Classifications for Council Approval**

The Council on Postsecondary Education's Personnel Policy Manual requires institutions requesting new classifications to prepare job specifications and a recommended pay grade. The institutions must submit the information to the Commissioner to place on the agenda of the next meeting of the System Personnel Review Committee (SPRC) of the Council on Postsecondary Education to be reviewed and approved. During the course of this audit, we found inadequate procedures and controls to ensure compliance.

As a result of the weakness noted above, there are currently two interim non-classified positions at RIC that were not submitted to the Commissioner to be put before the SPRC for approval. Both positions have been established and filled for at least two years.

*Recommendation to RIC:*

4. Submit all new classifications in accordance with section 1.03 of the Council's Personnel Policy Manual.

*Management's Response:*

- a. In the future all new job descriptions will be submitted to the SPRC for review on a timely basis.
- b. The Office of the Postsecondary Commissioner will develop a reporting process for receiving information on new positions, open positions, vacancies, and job postings at the state institutions as information items for the Council of Post-Secondary Education

*Responsible Party: Maggie Sullivan, Director of Human Resources*

*Anticipated Completion Date: Nov. 30, 2016*

### **Create Formal Administrative Policies and Procedures for Human Resources**

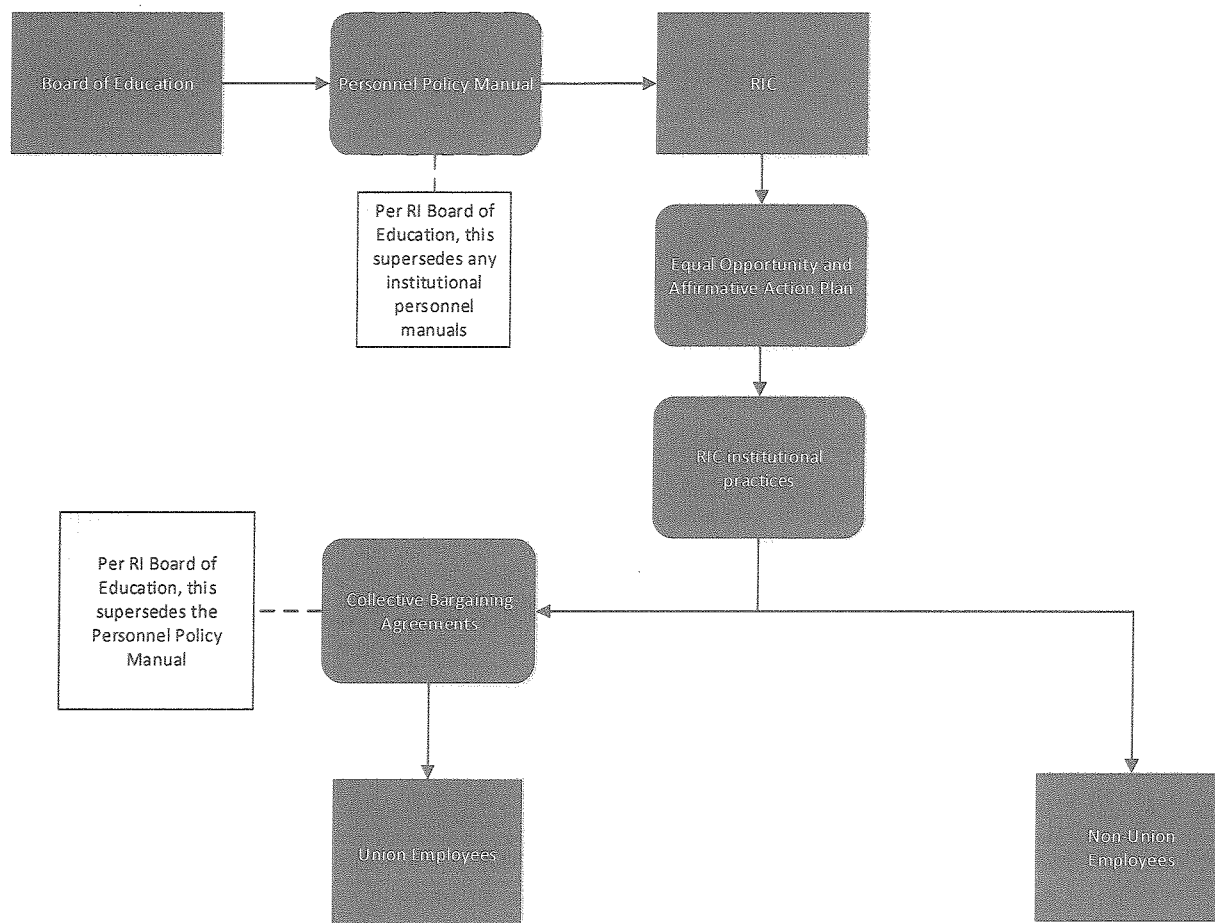
The Council on Postsecondary Education is the employer of record for higher education employees. The Personnel Policy Manual applies to non-classified,<sup>3</sup> higher education employees of the Council. Should the terms of the Personnel Policy Manual conflict with RIC institutional practices, the Personnel Policy Manual will be used as the authoritative guidance. In instances in which non-classified employees are covered by

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<sup>3</sup> Non-classified positions are those that are covered under RIGL §16-59-22-contract terms for the Council on Postsecondary Education.

a bargaining agreement and there is a conflict between bargaining agreement and the Personnel Policy Manual, the terms of the bargaining agreement will govern.

The following diagram illustrates the governing human resources administrative practices at RIC:



Formally written policies and procedures that are transparent and readily available are an integral part of controls and accountability.

RIC does not have adequate administrative human resources policies and procedures. The RIC Equal Opportunity and Affirmative Action Plan is used as the guideline for human resource management activities. Although there is general human resource information contained in the plan, this document is primarily directed at affirmative action legal requirements. Policies listed on RIC's Human Resources website only cover areas such as complaints, smoking, security and drug free workplace and links to the Personnel Policy Manual and the collective bargaining agreements. These are not sufficient as comprehensive formal policies and procedures.

This lack of administrative policies and procedures provides inadequate guidance in some areas, particularly for non-union, non-classified positions as they do not have collective bargaining agreements.

*Recommendation to RIC:*

5. Develop and communicate comprehensive formal administrative policies and procedures for human resources.

*Management's Response:*

- a. Administrative Policies and Procedures will be updated or created to explain clearly the Human Resources policies and procedures that affect union, non-union, and non-classified staff.
- b. The Office of the Postsecondary Commissioner will review the revised RIC administrative policies and procedures for human resources to assure they are in compliance with Council on Postsecondary Education personnel policies.

*Responsible Party: David Gingerella, Vice President for Administration & Finance/CFO*

*Anticipated Completion Date: Nov. 30, 2016*

## **Financial Administration and Management**

The various human resource issues discussed above have negatively affected the overall financial control environment of the college. Financial positions such as the controller and the Vice President of Administration and Finance are responsible for the design of the financial control structure at the college. Vacancies and turnover in these positions have limited the oversight of financial transactions and contributed to the breakdown of internal controls.

The sections below address process weaknesses and inefficiencies observed during the course of the audit and make recommendations for improvement.

### **Budget**

Public higher education institutions do not operate with a profit motive. In an effort to minimize the cost of education, revenues from tuition and fees are generally insufficient to support the operations of a public college. The State of Rhode Island appropriates general revenues to subsidize the college in order to provide affordable education to the community.

RIC is required to submit operating and capital budgets to the Council for approval in accordance with RIGL §16-59-4. This oversight mechanism is intended to provide assurance that the college budget is realistic, accordant with state-wide educational goals and objectives, and uses tuition, fees and general revenue appropriations economically.

**Suggested Improvements to Operational Budgeting Process:** It is the responsibility of executive management to allocate funds in the most efficient and effective manner to achieve the mission of the college. They must establish a balance between managing costs for students and providing sufficient fiscal support to educational programs. It is critical to establish a functional budget process for optimal resource use.

An effective and efficient budget process fosters collaboration between executive management and departmental staff. Departmental staff are best suited to identify needs of the department and cost-reduction strategies while executive management is responsible to review and approve initiatives that align with the strategic vision of the college.

For the period under review, RIC did not have a documented policy or procedure for the creation of an annual operating budget. The process for creating the budget is based primarily on prior year budgets,



with adjustments made for inflation, changes in personnel costs and certain specific college initiatives. The process as observed:

- Lacks cohesiveness between strategic planning initiatives and the operational budget.
- Lacks input from departmental management about program needs and budget reduction strategies.
- Fails to place downward pressure on departmental spending.

The current budgeting process does not promote efficient allocation of resources as it is based upon historical precedent rather than prospective need. In the absence of counterbalancing processes for identifying improvement, it removes the need for management to identify waste, while encouraging the status quo.

Without an effective budgeting process, management has difficulty establishing operational priorities and identifying areas for cost savings and efficiencies. Due to this ineffective process, RIC has struggled to manage operational costs. It has dealt with economic resource shortages primarily by holding positions vacant and deferring maintenance for capital assets, which is discussed in further detail below.

*Recommendations to RIC:*

6. Review the college's strategic vision as part of the budget cycle. For each strategic initiative, identify funds necessary for implementation and prioritize based upon budgetary resources.

*Management's Response:*

The College acknowledges that the strategic planning process and the budget development process have not previously worked in conjunction. The newly hired Budget Director is currently in the process of redesigning the operating budget request process to ensure that strategic initiatives are captured in the College's budget request to the Council and State. The Budget Office is also in the process of implementing a 5-year financial forecast model (factoring projected enrollments and cost of instruction), which the College previously did not utilize in its strategic planning process. This model will help identify and shape strategic initiatives that were previously not included in the strategic planning process.

*Responsible Party: David Gingerella, Vice President for Administration & Finance/CFO*

*Anticipated Completion Date: Nov. 30, 2016*

7. Require departmental management to submit budgets, operational plans and cost mitigation strategies which align with the strategic vision during each annual budget cycle. Incorporate plans and strategies approved by executive management into the operational budget.

*Management's Response:*

Both the Vice President for Administration and Budget Director have experience implementing and establishing operating budget review processes in large organizations. A revised process is currently being implemented for the college's FY 2018 operating capital budget requests, which is due to the Council in mid-September 2016.

*Responsible Party: David Gingerella, Vice President for Administration & Finance/CFO*

*Anticipated Completion Date: Nov. 30, 2016*

### **Implement process for Monitoring and Communicating Capital Asset Conditions**

Regular maintenance must be performed to maintain the operational condition of capital assets. A system of asset condition monitoring provides management with the ability to:

- Identify necessary repairs
- Provide justification for resource use
- Prioritize projects
- Maintain a list of future projects with estimated costs
- Catalog deferred maintenance expenses

When this information is communicated to fiscal management officers, it can be used to identify, plan and budget for repair and maintenance costs. Management has not implemented a formal system for reporting, tracking and monitoring capital asset conditions. Specifically, there is no policy which assigns responsibility for tracking and monitoring asset conditions and no formal process for communicating repairs and maintenance information.

As a result, management is unable to identify, prioritize and plan for capital repairs and maintenance, forecast life cycle costs and budget repair expenses. This has resulted in significant challenges with capital budgeting and planning, which is discussed in greater detail below.

#### *Recommendations to RIC:*

8. Introduce a formal method for tracking and monitoring asset conditions and assign a responsible party for maintaining the asset listing.

#### *Management's Response:*

- a. The college recently hired and filled the Director of Facilities and Operations position, and the person will begin in early June 2016. This position will have responsibility for a large component of the tracking and monitoring function. Other related functions will be the responsibility of the recently hired Controller.
- b. The Office of the Postsecondary Commissioner, as a part of its development of a longitudinal data warehouse for higher education, has proposed collecting data on campus facilities for the purposes of producing a facility inventory report that would assist in tracking & monitoring assets. RIC would need to collect the data for reporting facility information. In working toward cooperation with the OPC, RIC developed a campus-wide Facilities Plan with the assistance of Saratoga Associates in 2010 and under the new budget director has developed an asset protection plan. The plans are to be maintained by the Director of Capital Projects. RIC will engage a consultant in the next fiscal year to assist in the documentation of the useful life of capital assets

*Responsible Party: David Gingerella, Vice President for Administration & Finance/CFO*

*Anticipated Completion Date: Nov. 30, 2016*

9. Institute a formal process to communicate asset condition and repair information to personnel responsible for capital asset and repair budgeting.

*Management's Response:*

- a. Beginning in December 2015, the college implemented its first formal general maintenance and capital budget request process, which was agreed to by all Vice Presidents and the former President. RIC agrees that the campus was not clear on how to request funding for asset protection projects, how funding was budgeted, and the timing of when to execute projects. The newly implemented process is designed to give more lead time to strategically consider the funding, timing and execution of each asset protection or capital project.
- b. The Office of the Postsecondary Commissioner Facility Inventory Report will identify deferred maintenance issues at the campuses. Findings will support the request for RICAP funds in future budgets. RIC welcomes this assistance from OPC.

*Responsible Party: David Gingerella, Vice President for Administration & Finance/CFO*

*Anticipated Completion Date: Nov. 30, 2016*

### **Improve Planning to Support Capital Asset Budget**

A capital asset budget is a detailed plan to finance long-term investments, such as buildings and equipment. A well-developed budget clearly defines capital improvement and development goals along with estimated time and resource requirements.

To make these determinations, the budget function must utilize accurate and complete data related to capital asset needs in order to:

- assess and prioritize capital needs based on asset condition, safety risks, and operational objectives,
- estimate the necessary funding, and
- identify appropriate financing sources.

RIC's capital improvement plan for fiscal year 2016 was prepared based upon general needs rather than specifically identified projects or assets. For example, review of supporting detail for the fiscal year 2016 budget request revealed that for fiscal years 2017-2021 the college requested a total of:

- \$1 million for building envelope???? improvements,
- \$4.2 million for miscellaneous improvements, and
- \$2.25 million for window replacements.

At the time of the submission there was no documentation supporting the calculation of estimates or plans for specific projects that would be completed with the requested funds. There is no procedure to communicate detailed information about capital asset conditions and required maintenance to the budget function. Also, there is no documented policy for the development of the capital asset budget.<sup>4</sup>

Capital asset maintenance has been deferred for many years, and certain RIC capital assets are severely degraded. For example, four of the six residence halls have had no significant renovations in approximately fifty years. Per a consultant's report, the buildings require significant improvements, including major systems upgrades, as well as correction of building code and Americans with Disabilities Act violations. One of the residence halls is in such disrepair that it is recommended for demolition. Other buildings on campus have been similarly neglected.

The Council on Postsecondary Education is the owner of record for all land and property utilized by the public institutions of higher education in Rhode Island.<sup>5</sup> As such, the Council is responsible for reviewing and approving all capital budget requests. The Council reported that they perform only a high-level review of each college's annual capital asset budget and do not obtain supporting details and schedules. This limits the ability of the Council to adequately oversee the budget process.

*Recommendations to RIC:*

10. Improve capital asset maintenance planning by identifying and prioritizing specific capital projects utilizing information communicated from maintenance staff.

*Management's Response:*

RIC is currently undertaking a complete review of the capital budget process including processes and appropriate staffing. This review is being led by the new Vice President for Administration & Finance/CFO and the Budget Director. They will be joined in this process by the College's new Controller, who will be starting in his new role on July 5th. All three individuals have significant experience in creating, monitoring, and closing out capital projects. The audit specifically identifies projects for funding in both general operations and in auxiliary services that need to be addressed. The new capital process will take those needs into consideration. The College will also be developing a funding formula that will include detailed cost estimates. This new process will be started with the FY 18 Capital Project Review process that starts in late summer of 2016.

*Responsible Party: David Gingerella, Vice President for Administration & Finance/CFO*

*Anticipated Completion Date: Nov. 30, 2016*

11. Expand detail of capital budget request by:

- Identifying specific projects selected for funding.
- Incorporating formal cost estimates for each project and sub-project.

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<sup>4</sup> Refer to "Implement Formal Policies and Procedures" section for further discussion of recommended policies and procedures.

<sup>5</sup>Per RIGL §16-59-4.

*Management's Response:*

Beginning in December 2015, the college implemented a formal general maintenance and capital budget request process, which was agreed to by all Vice Presidents and the former President. The College has already improved its 5-year capital improvement plan as the audit period only covered FY 2015. With its FY 2017 capital improvement plan request submitted in July 2015, the college submitted, for the first time, detailed work plans for all of its projects. This level of detail was previously never provided to the Council, State Budget Office, and General Assembly fiscal staffs. The college looks to continue this enhancement with its FY 2018 request to be submitted in July 2016.

*Responsible Party: David Gingerella, Vice President for Administration & Finance/CFO*

*Anticipated Completion Date: Nov. 30, 2016*

*Recommendation to the Council:*

12. Collect and review documentation supporting the capital asset budget.

*Management's Response:*

- a. The Office of the Postsecondary Commissioner's Facility Inventory Report will help identify significant deferred maintenance issues at the campuses. The findings will influence the awarding of RICAP funds in future budgets.
- b. RIC will aid in this review of documentation and welcomes the support from OPC.

*Responsible Party: James Purcell, Commissioner*  
*David Gingerella, Vice President for Administration & Finance/CFO*

*Anticipated Completion Date: Nov. 30, 2017*

### **Revise Budgetary Controls to Improve Efficiency**

Management must implement controls over the expenditure of financial resources that establish a system of oversight and accountability. However, they must consider the cost effectiveness of these controls. Internal controls should balance executive oversight and operational efficiency.

The RIC purchasing system restricts purchases on accounts with insufficient budgeted funds; however, we find the controls over this process to not be cost effective. To move budgeted funds to different accounts, staff must utilize the budget transfer request process. There is a paper form which must be approved by up to four members of executive management, including the president, vice president, dean and department director. This process is required for all transfers, even those within a departmental budget for nominal dollar amounts. For example, a transfer of \$1,000 between two accounts in the same department requires approval from the vice president.

The process removes discretionary decision-making by departmental management to operate within the bounds of their own budget. Departmental expenditures are delayed until the budget transfer request is processed. Significant time and effort is dedicated by the Budget Office to process these forms.

During fiscal year 2015, 1,478 budget transfers were performed. Approximately 42 percent of these transfers were for amounts less than \$500. Of the 25 transfers selected for review, 56 percent were initiated as a result of a denied purchase order. In these cases it took an average of five business days to perform the budget transfer so that the purchase order could proceed.

*Recommendations to RIC:*

13. Modify system controls to permit small account deviations within an approved threshold.

*Management's Response:*

The newly hired Budget Director has started reviewing and analyzing the budget transfer process. This review has included data collection and research into how other institutions handle the process. Since it will require significant man hours to implement a new budget transfer process fully, it is anticipated that a recommendation for a new process will be completed by November 30, 2016.

*Responsible Party: David Gingerella, Vice President for Administration & Finance/CFO*

*Anticipated Completion Date: Nov. 30, 2016*

14. Revise the budget transfer request process to improve efficiency by implementing an electronic request process and increasing thresholds for executive management approval.

*Management's Response:*

The newly hired Budget Director has started reviewing and analyzing the budget transfer process. This review includes data collection and researching and benchmarking other institutions as to how this function is handled. Since it will require significant man hours to fully implement a new budget transfer process, it is anticipated that a recommendation for a new process will be determined by November 30, 2016.

*Responsible Party: David Gingerella, Vice President for Administration & Finance/CFO*

*Anticipated Completion Date: Nov. 30, 2016*

## **Auxiliary Facilities**

An auxiliary enterprise is a self-supporting entity that exists to furnish goods or services for a fee to students, faculty and staff, or incidentally to the general public. RIC has deemed the auxiliary facilities of the college as:

- Residence Halls
- Dining Center
- Student Union

Through interviews conducted with auxiliary and budget staff, the following opportunities for improvement were identified.

**Establish a Policy to Set Residence Hall Fees Which Incorporates Reserve Fund Planning (4)**  
RIGL §16-59-9 states that auxiliary facilities must be self-supporting. State appropriated funds may not be designated to the auxiliaries, unless allowed per a bond issuance or a capital appropriation. Since management of the residence halls cannot rely on the college's general education fund for funding, there must be long-term strategies to collect sufficient revenues to maintain the facilities.

There are no formalized policies and procedures for calculating the fee for the residence halls. The current manner in which residence hall fees are set does not account for the costs associated with renovating and maintaining the buildings.

A lack of adequate reserves increases the risk that the auxiliary facilities will be unable to fund emergency repairs and future renovation needs. As discussed in "Improve Planning to Support Capital Asset Budget," four of the six residence halls had no significant renovations in approximately fifty years.

*Recommendations to RIC:*

15. Define the process and criteria in which residence hall fees are set.

*Management's Response:*

RIC recognizes this issue, not only with the residence halls, but with all of the auxiliaries within the college. The FY 2018 operating budget process will be changed so that auxiliaries not only take into consideration added variable costs, but also a fair allocation of fixed costs and capital replacement. This will include a review of not just rates derived from auxiliaries, but rates charged campus wide. It should be noted that all of the auxiliary services have established capital needs line items and they are all currently in a positive position. These capital needs accounts do not, however, have enough of a fund balance to meet all of the deferred maintenance needs.

*Responsible Party:*      *David Gingerella, Vice President for Administration & Finance/CFO*  
*Scott Kane, Interim Vice President for Student Affairs*

*Anticipated Completion Date: Nov. 30, 2016*

16. Place a portion of the fee into a reserve fund for maintenance and repair, emergencies and major renovations or acquisitions.

*Management's Response:*

Starting with the FY 2018 operating budget process and going forward the College will take into consideration anticipating capital needs and allocating funds on an annual basis to meet these needs.

*Responsible Party:*      *David Gingerella, Vice President for Administration & Finance/CFO*  
*Scott Kane, Interim Vice President for Student Affairs*

*Anticipated Completion Date: Nov. 30, 2016*

17. Routinely conduct and document a review to assess the adequacy of the reserves.

*Management's Response:*

Starting with the FY 2018 operating budget process and going forward the College will take into consideration anticipating capital needs and allocating funds on an annual basis to meet these needs.

*Responsible Party: David Gingerella, Vice President for Administration & Finance/CFO*

*Anticipated Completion Date: Nov. 30, 2016*

### **Define Responsibilities of Auxiliary Facilities**

To ensure auxiliary facilities do not receive general education funding, costs for which the auxiliary facilities are accountable must be properly defined and allocated. However, management has not clearly defined what property is the responsibility of the college and what property is the responsibility of the auxiliary facilities. For instance, it is not defined which party is responsible to pay for repairs to the parking lots in which the residence hall community parks.

Without a written policy there is a risk that State appropriated funds may be used to pay for expenditures which are the responsibility of the auxiliary facilities.

#### *Recommendation to RIC:*

18. Establish and define the responsibilities of the college and of the auxiliary facilities.

#### *Management's Response:*

A complete review of auxiliary services is currently underway to include a review of how to best assign responsibility for facilities. Once completed, a recommendation for charges will be made to the new College President.

*Responsible Party: David Gingerella, Vice President for Administration & Finance/CFO  
Scott Kane, Interim Vice President for Student Affairs*

*Anticipated Completion Date: Nov. 30, 2016*

### **Sponsored Projects**

RIC receives funding through various grants and contracts (known as sponsored projects) with federal, state and local government agencies, as well as private foundations to conduct research.

There are various stages to the sponsored project life cycle. They include:

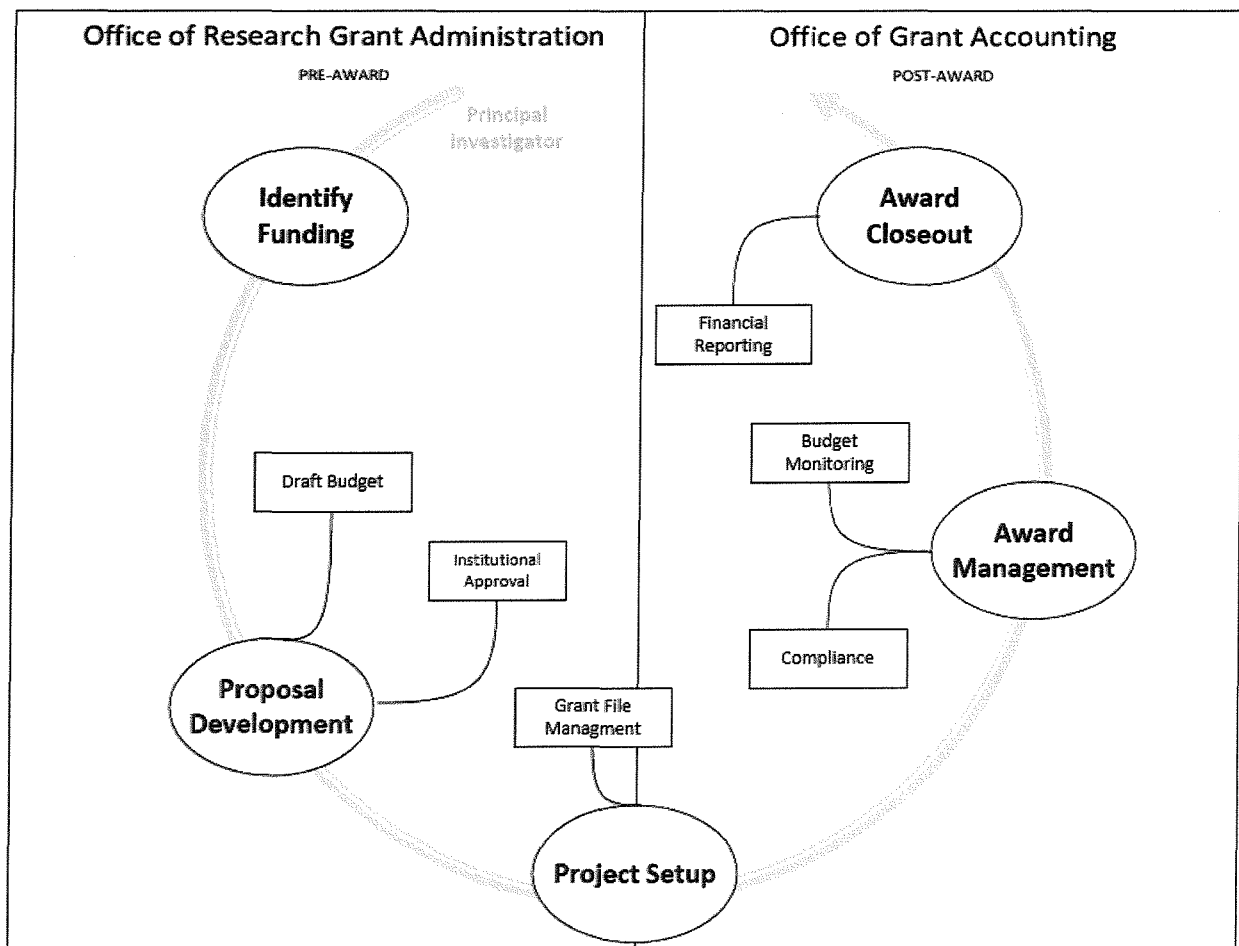
- Identification of funding opportunity
- Proposal development
- Project setup (award acceptance, award and budget creation)
- Award management (invoicing sponsors, preparing reports, applying sponsor payments, etc.)
- Award close-out

The administration of sponsored projects primarily involves three parties at RIC: the Principal Investigator (PI), the Office of Research and Grant Administration (ORGA) and the Grant Accounting Office (GAO).



- The PI is responsible for the sponsored project throughout its entire life cycle and drives the overall fiscal and programmatic direction of the project. They decide how to allocate the available financial resources to successfully perform the project objectives.
- ORGA assists the PI during the period before an award is issued, known as the “pre-award” stage. They identify funding opportunities, assist in the development of the proposal and submit the proposal to the sponsor. GAO assists the PI after the award is issued during the period known as the “post-award” stage. Their duties include financial reporting and invoicing to the sponsor in conformance with sponsor terms.

The sponsored project life cycle is depicted below:



In performing this process, it is critical that ORGA and GAO coordinate efforts in order to establish the most effective and efficient administration of sponsored projects. As can be seen from the diagram above, there is overlap in responsibilities at the time when an award is issued and the project is set up. In order to successfully coordinate and navigate through the complexities of this process, policies and procedures must be in place to instruct staff to take appropriate action. However, RIC does not have adequate policies and procedures in place for sponsored project oversight and administration. This has resulted in inefficiencies and control breakdowns in this area which is discussed in detail in the following sections of this report.

### **Improve Assigned Roles and Responsibilities for Project Approvals**

Sponsored project proposals are subject to executive approval via the proposal summary approval form (PSAF). The purpose of the form is to document departmental and executive approval of sponsored projects undertaken by the college. It is signed by eight people: the principal Investigator (PI), department chair, dean, director of research and grants, budget director, vice president of administration and finance, vice president of academic affairs and the president.

There is no assignment of responsibility for what aspect of the proposal each party approves; rather, each signature is a broad approval of the entire project. As a result, it appears that each party performs a general review of the project rather than a detailed inspection of the critical component relevant to their area of responsibility. The Bureau further discusses the impact of weaknesses to this approval process in the issues below.

#### *Recommendation to RIC:*

19. Review roles and responsibilities for project approvals. Assign specific areas of review for each approver.

#### *Management's Response:*

The college is undertaking comprehensive review of all sponsored project agreements. We have hired an accountant with extensive experience in doing post award work and we have a new Controller who has significant experience with both pre-and post-award functions. In addition, the VPAF was responsible for all of the sponsored agreements in the sciences at a larger research institution. We expect that this expertise will allow us to develop a comprehensive pre-and post-award management system along with the detailed training manual that can be supplied to all of the new and current principal investigators.

*Responsible Party:*        *David Gingerella, Vice President for Administration & Finance/CF*  
                                      *Ron Pitt, Vice President for Academic Affairs*

*Anticipated Completion Date: Nov. 30, 2016*

### **Improve Coordination between ORGA and Grant Accounting Office**

Coordination and consistent communication between the pre-award and post-award functions are critical to facilitate effective and efficient sponsored project management. Roles and responsibilities of each function must be appropriately assigned and clearly defined to ensure professional resources are properly utilized and managed.

Certain activities performed during the pre-award stage of a sponsored project can significantly impact the post-award stage; therefore, communication of post-award needs is essential. Example of such activities include:

- *Creation of the award budget in the accounting system* - The award budget serves as the financial blueprint of the project and is often referred to during the duration of the project and is relied upon extensively by the post-award function.
- *Negotiation of payment terms* - An invoicing format that requires excessive supporting documentation heavily impacts the workload of post-award and reduces time available to spend on other support activities.

The Grant Accounting office is currently not included in the negotiation or approval process for sponsored projects. As a result, they are not given adequate input into critical areas of the proposal process including budgets and invoicing.

Currently ORGA prepares the project budget and negotiates payment terms. The proposal budgets, prepared by ORGA, are not created in accordance with the financial accounting structure, thereby, limiting the ability of Grant Accounting to implement a standardized invoicing procedure.<sup>6</sup> Further, invoicing terms and conditions for certain projects have been overly burdensome, including high levels of supporting documentation and impractical submission deadlines.

These workflow inefficiencies reduce time and resources available in the Grant Accounting Office to provide support services to Principal Investigators and negatively affect the financial administration of the project.

*Recommendations to RIC:*

20. Improve collaboration between the pre-award and post-award functions by including Grant Accounting as an approver in the PSAF process.

*Management's Response:*

Improvements in collaboration are currently underway. The pre-and post-award staff members are meeting on a regular basis and the post-grant accountant is reviewing all proposals prior to the VPAF signing the PSAF.

*Responsible Party:* David Gingerella, Vice President for Administration & Finance/CFO  
Ron Pitt, Vice President for Academic Affairs

*Anticipated Completion Date:* Nov. 30, 2016

21. Assign Grant Accounting responsibility to approve relevant areas of project proposals, including the budget and invoicing terms.

*Management's Response:*

Agreed Please see the prior response as our post-award grant accountant is reviewing PSAF. Grant Accounting will define the information needed in an award agreement so that ORGA can successfully negotiate the information into grant and contract agreements.

*Responsible Party:* David Gingerella, Vice President for Administration & Finance/CF  
Ron Pitt, Vice President for Academic Affairs

*Anticipated Completion Date:* Nov. 30, 2016

### **Strengthen Indirect Cost Approval Process**

Sponsored projects allow an organization to charge an additional amount to a sponsor for "indirect costs." This charge is in recognition of the administrative and overhead costs associated with supporting the research functions, including accounting, purchasing, building maintenance, etc. These charges are

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<sup>6</sup> The current structure of the accounting system requires a uniform budget format in order to issue invoices.

generally allowed based on a percentage of funds expended and must be allocated periodically throughout the grant period.

Indirect cost rates are negotiated with the federal government under the guidelines of Title 2, Part 200, of the Code of Federal Regulations once every several years.

RIC's current negotiated rate is 53 percent of salaries and wages directly related to grants. This rate theoretically represents the administrative and overhead costs associated with the administration of the grants. Although the college is not required to use the federally negotiated rate for private and State-sponsored projects, accepting less than this rate may not fully recover administrative overhead costs from the sponsor. Therefore, college administrators must be diligent in negotiations to ensure indirect cost recoveries are maximized. We tested 31 grants and contracts and noted:

1. The use of a total of ten different methods to calculate indirect cost rates.
2. Twenty-five cases used a rate less than the federally agreed upon rate.
3. No documentation to support management approval of the rate used.

Without a process to monitor and approve overhead rates, there is risk that the college may not fully recover actual administrative and overhead costs.

*Recommendation to RIC:*

22. Implement a process to document executive approval of all deviations from the federally agreed indirect cost recovery rate. Include a means to verify indirect cost recoveries are maximized for state and private sponsored projects.

*Management's Response:*

This verification is done through the review and approval of the PSAF. Going forward all deviations from the federal indirect rate will need the approval of both the vice president for academic affairs and the vice president for administration and finance. Neither will allow approval without a detailed justification. Sponsored projects that have a specific indirect rate that differs from the Federal rate will require the Controller's recommendation of approval to the vice president of academic affairs and vice president of administration and finance.

*Responsible Party: David Gingerella, Vice President for Administration & Finance/CFO  
Ron Pitt, Vice President Academic Affairs*

*Anticipated Completion Date: Nov. 30, 2016*

## **Determine the Account Types for the Sponsored Project Fund**

A sponsored project agreement has terms which dictate the manner in which the awarded funds must be expended. Typically, the sponsor requires periodic programmatic and financial reports to be provided.

During testing, several project accounts were identified which did not appear to meet the definition of a sponsored project. For instance, a project account was created to record revenues received from an electric company rebate. A rebate does not meet the definition of a sponsored project as there were no restrictions as to the use of funds.

RIC does not have a policy defining sponsored projects, resulting in a comingling of information and funds. This weak control over the information and funds complicates financial reporting and hinders efficient fiscal oversight of sponsored projects.

*Recommendations to RIC:*

23. Identify current project accounts which do not align with the definition of a sponsored project.

*Management's Response:*

As noted above, all current sponsored project agreements are under comprehensive review to make sure that the project is in line with the definition of the sponsored project definition.

*Responsible Party: David Gingerella, Vice President for Administration & Finance/CFO*

*Anticipated Completion Date: Nov. 30, 2016*

24. Move non-sponsored project accounts from the accounting fund designated for sponsored projects into a separate and distinguishable fund.

*Management's Response:*

The process of moving non-sponsored project accounts from the accounting fund designated for sponsored projects has been started and will be completed by the end of the year.

*Responsible Party: David Gingerella, Vice President for Administration & Finance/CFO*

*Anticipated Completion Date: Nov. 30, 2016*

### **Develop and Implement Methodology for Tracking Sponsored Project Financial Activity**

In order to comply with sponsor terms and financial reporting requirements, it is critical that entities maintain systems to identify and segregate different types or categories of sponsored projects.

ORGA does not assign project numbers methodically so that different types of awards can be identified and segregated. Additionally, multiple project numbers may be issued for a single award with no means to group those projects together to obtain a complete picture of the financial activity of the award.

Policies and procedures which define a project account numbering convention do not exist. This increases the risk of improper reporting and inadequate monitoring of projects. Personnel may encounter difficulties or be unable to gather financial information pertaining to a particular award.

*Recommendations to RIC:*

25. Develop a methodology for assigning account numbers which identifies project attributes.

*Management's Response:*

The college has designated the necessary funds to pay for a consultant to help implement the Grants Module in PeopleSoft. As part of this project, we expect that we will develop technology for assigning account numbers which identify project attributes. This should also allow us to update project numbers consistently and continuously.

*Responsible Party:*      *David Gingerella, Vice President for Administration & Finance/CFO*  
*Pamela Christman, Assistant Vice President for Information Services*

*Anticipated Completion Date: Nov. 30, 2016*

26. Update all current project numbers to comply with the determined numbering convention and utilize it for new projects.

*Management's Response:*

This update will be addressed as part of the project noted above with the management of sponsored project agreement done through the Grant Module in PeopleSoft.

*Responsible Party:*      *David Gingerella, Vice President for Administration & Finance/CFO*  
*Pamela Christman, Assistant Vice President for Information Services*

*Anticipated Completion Date: Nov. 30, 2016*

### Centrally Collect and Manage Sponsored Project Information

An effective method of collecting and maintaining sponsored project data has not been implemented at RIC. Information is not consistently obtained for all sponsored projects. There is no comprehensive centralized database to maintain sponsored project information. Although RIC has purchased the grants module for their accounting system, it has yet to be implemented. Therefore, there are no readily accessible means to view all relevant information related to a sponsored project, including but not limited to:

- CFDA Number
- Total Award Amount
- Project Sponsor
- Period of Award
- Primary or Sub-Award
- Indirect Cost Rate

To ensure all parties involved with the sponsored project administration process have the ability to accurately perform their responsibilities, all sponsored project information must be appropriately disseminated. For instance, the Grant Accounting Office cannot effectively ensure expenditures comply with sponsor terms without all of the relevant terms and conditions of the agreement. Significant non-compliance with sponsor terms increases the risk of loss as it may cause sponsors to withhold funding and may impact potential future awards. Collection of consistent documentation and implementation of an electronic system would allow for effective maintenance and management of sponsored projects.

*Recommendations to RIC:*

27. Define documentation required to be obtained for each sponsored project.

*Management's Response:*

The Director of Grant Accounting has identified the documentation to be maintained in the grant file in the Grant Accounting Office. An organizational structure for the grant files has also been implemented. Grant Accounting has always had access to notices of awards to assess accurately allowable expenses charged to sponsored projects.

*Responsible Party:* David Gingerella, Vice President for Administration & Finance/CFO  
Ron Pitt, Vice President for Academic Affairs

*Anticipated Completion Date:* Nov. 30, 2016

28. Assign a responsible party to collect and maintain the information.

*Management's Response:*

The Director of Grant Accounting has identified the documentation to be maintained in the grant file in the Grant Accounting Office. An organizational structure for the grant files has also been implemented. Grant Accounting has always had access to notices of awards to assess accurately allowable expenses charged to sponsored projects.

*Responsible Party:* David Gingerella, Vice President for Administration & Finance/CFO  
Ron Pitt, Vice President for Academic Affairs

*Anticipated Completion Date:* Nov. 30, 2016

29. Implement and utilize the grants module in the accounting system to maintain and disseminate sponsored project information.

*Management's Response:*

The College will hire a PeopleSoft consultant to assist with the implementation of the grants module.

*Responsible Party:* David Gingerella, Vice President for Administration & Finance/CFO  
Pamela Christman, Assistant Vice President for Information Services

*Anticipated Completion Date:* Nov. 30, 2016

**Improve Budget Monitoring Guidance for Principal Investigators**

Regular monitoring of account financial activity helps to ensure revenues have been received, confirm that funds are available when needed and avoid overspending. During discussions with sponsored project staff, a recurring theme was a complicated and unclear post-award process. There are limited policies

and procedures related to the post-award stage of the sponsored project cycle. PIs are left to manage their sponsored project budget after receipt of award fund without adequate managerial reports or are not trained.

We discovered the following issues resulting from insufficient budget monitoring:

- Analysis of 11 grants ending prior to or during fiscal year 2015 revealed that 6 awards were over-utilized (overspent), resulting in \$143,555 of general education funds used to subsidize those sponsored projects.
- The remaining five awards were under-utilized, resulting in \$410,404 in potential funding which was not received by the college.
- One PI had not charged any expenses to her projects, but, rather, had charged the general education fund.

Applicable policies and procedures may have prevented some of these issues. The grant accountant was the only staff in the Grant Accounting Office for approximately two years; therefore, insufficient grant office resources and personnel contributed to the control weaknesses and resulted in staff unavailable to create such policies and procedures or provide training.<sup>7</sup>

A lack of training and access to other informational resources increases the risk of non-compliance, penalties from sponsors and risk of inaccurately recorded financial statements. Insufficient monitoring of expenditures may continue to result in general education funds used to subsidize sponsored project research. Additionally, while some awards may allow funds to be carried over into the following year, failure to fully utilize funds within the award period may result in reductions of future awards and reduced indirect costs recovered.

#### *Recommendations to RIC:*

30. Create and disseminate managerial reports which will allow PIs to effectively oversee and monitor award activity.

#### *Management's Response:*

PIs will be receiving monthly reports through the grants module system. In the meantime, the Director of Grant Accounting has created budget-to-actual reports and housed them in Report Manager in PeopleSoft for PIs to access.

*Responsible Party:* David Gingerella, Vice President for Administration & Finance/CFO

*Anticipated Completion Date:* Nov. 30, 2016

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<sup>7</sup> Refer to Human Resource Management section of this report for further discussion of staffing issues.



31. Develop training or other guidance related to the post-award process.

*Management's Response:*

The college's new Controller along with ORGA and Grant Accounting will develop and implement a detailed training for current and future PIs. This work will start in the late summer and continue on through the early fall. In the meantime, the Director of Grant Accounting is meeting with PIs individually to specifically address their questions.

*Responsible Party:* David Gingerella, Vice President for Administration & Finance/CFO  
Ron Pitt, Vice President for Academic Affairs

*Anticipated Completion Date:* Nov. 30, 2016

### **Improve Controls over Sponsored Project Expense Allowability**

Institutions must implement an internal control structure to ensure that funds are used in the manner prescribed by the sponsor.

Currently, purchase requisitions supported by sponsored funds do not undergo secondary approval of expenditure allowability. The PI is responsible for the creation of all purchase requisitions for sponsored projects. The requisition is routed to ORGA for approval; however, this office does not verify that the purchase was made in accordance with the terms of the agreement. They do not perform a review of terms and conditions or applicable federal regulations. This effectively makes the PI the sole authorizing individual for sponsored project purchases.

The risk of sponsorship termination increases for those items purchased which do not comply with contractual terms. Should this occur, operating funds would be used to pay for the goods or services. Failure to adhere to terms of the agreement could also deter sponsors from awarding funds in subsequent years.

*Recommendation to RIC:*

32. Require purchase requisitions using sponsored project funds to undergo appropriate secondary allowability verification.

*Management's Response:*

All sponsored research agreements are now following normal college procurement policies and procedures. This process requires a second review of all purchase requisitions and approvals through the normal approval process including budgetary approval. In addition, the approval of requisitions has transferred from ORGA to Grant Accounting, where purchases are approved after reviewing terms and conditions of awards. The Purchasing Director currently has full delegated authority for auxiliaries, research and grants and third party funds through the Council of Postsecondary Education.

*Responsible Party:* David Gingerella, Vice President for Administration & Finance/CFO  
Ron Pitt, Vice President for Academic Affairs

*Anticipated Completion Date: Nov. 30, 2016*

### **Improve System of Internal Control Related to Sponsored Project Salary Allocation**

Federal Office of Management and Budget (OMB) Uniform Guidance 2 CFR 200.430 states that charges to grants for salaries and wages must be based upon documentation that is:

- Supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable and properly allocated.
- Incorporated into the official records of the entity.
- Reasonably reflective of the total activity for which the employee is compensated by the non-Federal entity.
- Supportive of the distribution of the employee's salary or wages if the employee works on more than one award.

Weaknesses in the system of internal controls related to grant personnel expenses at RIC include:

- Absence of documented policies and procedures related to allocation of salaries to sponsored projects.
- Inconsistent use of allocation methodologies, including actual hours worked, percentage of course load and prospective and retrospective estimates.
- Difficulty providing detailed time and effort records because they were maintained informally by departmental personnel.

Out of a sample of 40 salary expenses charged to sponsored projects, three charges were made based on a percentage of the allowable budget rather than actual effort. Four employee time sheets did not contain evidence that the PI approved the charges.

Employees are paid from several processes including the State's central payroll function, through a third-party vendor and directly from RIC's operating funds. For each of these payroll processes there is a corresponding process for reporting time and effort. These disparate methods of payroll processing make it difficult to institute uniform procedures for recording, tracking, monitoring and approving employee time and effort.

Failure to accurately report time increases the risk of inaccurate reimbursements, errors in payroll processing and penalties from sponsors, including disallowance of cost reimbursement.

#### *Recommendations to RIC:*

33. Verify and approve salary allocation to sponsored projects.

*Management's Response:*

All charges including salary allocations to sponsored project agreements will be reviewed and verified periodically to ensure that they are both accurate and within the budget and scope set by the original agreement.

*Responsible Party:*      *David Gingerella, Vice President for Administration & Finance/CFO*  
*Ron Pitt, Vice President for Academic Affairs*

*Anticipated Completion Date: Nov. 30, 2016*

34. Implement a standardized method of reporting employee time and effort. Consider utilizing the electronic time-keeping system to track time and effort reporting campus-wide.

*Management's Response:*

Using the PeopleSoft Grant Module, along with the HRSA module, RIC will be able to track PIs' time and effort not only on a specific agreement but across all agreements. PIs will be given training on how to track their time and effort.

*Responsible Party:*      *David Gingerella, Vice President for Administration & Finance/CFO*

*Anticipated Completion Date: Nov. 30, 2016*

35. Utilize the standardized time-keeping system to implement a methodology for allocating costs to sponsored projects.

*Management's Response:*

Along with the implementation of the Grants Module in PeopleSoft, RIC will review its time-keeping system to improve the process for allocating salary costs to sponsored projects.

*Responsible Party:*      *David Gingerella, Vice President for Administration & Finance/CFO*

*Anticipated Completion Date: Nov. 30, 2016*

### **Implement Cost Transfer Policy**

Cost transfers to move sponsored project expenses must comply with federal regulations regarding allowability, allocation and reasonableness. OMB Uniform Guidance 2 CFR 200.405 states, in general, that all costs allocable to a sponsored agreement may only be charged in proportion to the amount of benefit provided to the grant objective. Costs may not be shifted to other sponsored agreements in order to

meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement or for other reasons of convenience.

In order to comply with this regulation, the entity must have policies and procedures in place to ensure that cost transfers contain the appropriate documentation and administrative approval to substantiate the validity of the transfer.

RIC's current process for executing a cost transfer does not have adequate controls in place. During review of 35 cost transfers (15 expense, 20 salary) between sponsored projects, the following was identified:

- eleven instances in which journal entry documentation did not contain sufficient information to justify the transaction, and
- ten instances in which the appropriate PI authorizing the journal entry transfer was not evidenced.

Further, there was an inappropriate cost transfer between two federal grants. Documentation reviewed contained e-mail correspondence between the grant accountant and the PI in charge of both federal grants in question. The e-mail indicates that \$17,010 in salary and fringe benefit expenses were transferred between the two different federal grants solely because one grant was in a budgetary deficit and the other had a surplus. The salary expense transfer was not based on actual work performed on the grants.

Without a formal cost transfer policy, sponsored projects may be charged for costs which did not provide a benefit to the project, or which were unallowable per sponsor terms or federal regulations.

*Recommendations to RIC:*

36. Require justification for cost transfers which addresses the following:

- Reason for the transfer
- Approval by the PI(s)
- If the transfer is allowable and properly allocable to the new sponsored project

*Management's Response:*

It is the college's responsibility to minimize (or eliminate) whenever possible cost transfers between sponsored agreements: When a cost transfer is needed before it is processed, a detailed explanation of why the charge was originally mischarged and why it should be reallocated to the new agreement will be required. This documentation will need to be signed by the appropriate PI, the Grant Accountant and the College's Controller before it will be processed into the college's accounting system. A cost transfer policy has been drafted and is under review.

*Responsible Party:*      *David Gingerella, Vice President for Administration & Finance/CFO*  
                                     *Ron Pitt, Vice President for Academic Affairs*

*Anticipated Completion Date: Nov. 30, 2016*

37. Determine the amount, if any, of questioned costs that should be repaid regarding the inappropriate cost transfer.

*Management's Response:*

A comprehensive review is being done on all sponsored project agreements to determine any amounts that should not have been allowed on a specific agreement. Costs that are not allowed will be removed. If this results in any remaining positive balance on a specific sponsored project agreement, the unspent funds will be returned to the sponsor.

*Responsible Party:*      *David Gingerella, Vice President for Administration & Finance/CFO*  
                                     *Ron Pitt, Vice President for Academic Affairs*

*Anticipated Completion Date: Nov. 30, 2016*

### **Indirect Cost Allocation Manual Process**

Indirect cost charges are allowed based on a percentage of funds expended and must be allocated periodically throughout the project period.

Currently RIC uses a manual process to allocate indirect costs, which is burdensome to the Grant Accounting Office. It requires significant time and effort and utilizes the scarce resources of the Grant Accounting Office to perform routine calculations. Further, a manual allocation process is, by its nature, susceptible to human error. During our testing, we found that two of twenty-five (8%) selected indirect cost allocations were erroneously calculated. As a result, indirect costs were incorrectly allocated to grants. An automated allocation system would perform accurate calculations correctly and timely, while efficiently utilizing administrative resources.

*Recommendation to RIC:*

38. Utilize the accounting system grants module to automate the process of allocating indirect costs to grants.

*Management's Response:*

The college agrees with this recommendation and is proceeding with the implementation of the grants module to process and allocate the indirect costs to grants. In the meantime, the Director of Grant Accounting is working with the College's MIS Department to implement this process.

*Responsible Party: David Gingerella, Vice President for Administration & Finance/CFO  
Pamela Christman, Assistant Vice President for Information Services*

*Anticipated Completion Date: Nov. 30, 2016*

## **Purchasing**

The Purchasing Office at Rhode Island College oversees and processes the procurement of all materials, supplies and services. RIC has internal purchasing policies and procedures but is still subject to all rules and regulations promulgated by the State of Rhode Island Division of Purchases and the Council on Postsecondary Education. During the time of our audit, Rhode Island College had been granted delegated authority to administer the purchasing process for all expenditures under \$5,000 by the Division of Purchases.

During the review of sponsored project management, areas of risk were identified related to the purchasing function. These areas, along with recommended improvements, are discussed below.

### **Improve Controls over Check Request Process (27) (28)**

RIC permits direct vendor payments without the issuance of a formal purchase order for certain transactions. These payments are made through the “check request” process. This process is strictly an accounts payable function and, therefore, does not have oversight from the RIC purchasing department.

RIC does not formally mandate the type of transactions which are allowed to be paid through this process. During sponsored project testing, 17 payments to consultants were tested, 13 of which were made via the check request process. Due to the payment being made outside of the purchase order process, purchasing regulations were not followed.

For example, contracts were not entered into for all 13 consultants paid through the check request process. One of these consultant was a former employee who was paid \$17,000. A written contract provides detail about the services to be rendered by the consultant, preserves the understanding of the parties as to their rights and responsibilities and provides a legal mechanism for enforcement of contract terms.

Additionally, the purchasing regulations of the Council states that consultant services valued between \$5,000 and \$20,000 must be forwarded to the Commissioner for approval. Testing revealed that three consultant payments over that threshold did not obtain such approval. The absence of a formal policy for the check request process created an environment in which these circumventions of purchasing requirements were allowed to take place.

Further, controls over authorization of the check request form were not operating effectively. Out of 22 special personnel services<sup>8</sup> transactions reviewed which were paid through the check request process, a

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<sup>8</sup> Special personnel services are labor services provided by non-employees such as consultants.

total of 17 payments amounting to \$48,348 lacked at least 1 authorizing signature on the check request form.

*Recommendations to RIC:*

39. Define the type of transactions which can be paid through the check request process.

*Management's Response:*

A revised check request policy is being written and will be communicated to the College community. Going forward, all check requests submitted to Accounts Payable that require Purchasing involvement (in accordance with the State of RI procurement regulations) will be rejected and sent to Purchasing to rectify.

*Responsible Party:* David Gingerella, Vice President for Administration & Finance/CFO

*Anticipated Completion Date:* Nov. 30, 2016

40. Deny processing of check requests when the underlying transaction is required to have an approved purchase order.

*Management's Response:*

As noted above, check requests will be minimized and compliance will be enforced through the utilization of the electronic requisitioning system.

*Responsible Party:* David Gingerella, Vice President for Administration & Finance/CFO

*Anticipated Completion Date:* Nov. 30, 2016

41. Perform training on purchasing policies and procedures

*Management's Response:*

RIC Purchasing performs "Purchasing 101" training sessions throughout the academic year, and we schedule one-on-one trainings upon request. We will coordinate this training with a PI training plan.

*Responsible Party:* David Gingerella, Vice President for Administration & Finance/CFO

*Anticipated Completion Date:* Nov. 30, 2016

### **Improve Invoice Approval Controls**

Invoice payment is a core mechanism for expending an entity's financial resources. Effective controls over this process ensure that invoice payment has been authorized by an individual with knowledge that satisfactory goods and services have been delivered.

Rhode Island College's internal procedure requires department directors to physically sign all invoices before funds are disbursed. The Bureau tested a sample of 60 invoices to assess the effectiveness of this control. Twenty-six did not have the designated official's signature documented on the invoice prior to payment.

The paper-based design of the current control over invoice approval is inefficient and makes invoice authorization difficult to enforce. Management lacks assurance that invoices are being reviewed and approved by the appropriate individual. The RIC accounting system is capable of electronic invoice approval; however, the software module has not yet been implemented.

*Recommendations to RIC:*

42. Implement and utilize the accounting system's electronic receiving module.

*Management's Response:*

It is the college's intent to implement the electronic purchasing receiving module in FY 2017.

*Responsible Party:* David Gingerella, Vice President for Administration & Finance/CFO  
Pamela Christman, Assistant Vice President for Information Services

*Anticipated Completion Date:* Nov. 30, 2016

43. Develop a formal policy regarding authorization for invoice payment.

*Management's Response:*

The policy will be developed during Fiscal 2017.

*Responsible Party:* David Gingerella, Vice President for Administration & Finance/CFO

*Anticipated Completion Date:* Nov. 30, 2016

## **Implement Formal Policies and Procedures**

Formal policies and procedures are a key component of a sound internal control environment. Policies and procedures:

- Document significant business processes.
- Educate staff on how to achieve the mission and objectives of the college.
- Convey employee performance expectations.
- Address potential sources of risk and create awareness of the need for risk management.
- Facilitate training of new employees.

While the Office of Institutional Research and Planning is responsible to manage the college's administrative policy process, it does not communicate with management to develop or identify gaps in existing policy or the need to establish new policy. As a result, significant business processes often do not have associated guidance and a comprehensive collection of policies and procedures does not exist.



The issues resulting from the lack of adequate policies and procedures have been compounded by the departure of certain key employees having critical institutional knowledge.

For a listing of recommended policies and procedures, refer to Appendix II at the end of this report.

*Recommendation to RIC:*

44. Assign an appropriate party to identify existing gaps in policy coverage, ensure that all significant business processes are documented and make the policies and procedures available to all personnel.

*Management's Response:*

This work is on-going; the college has a plan for implementation and a person assigned. College procedure requires that all updates to the policies and procedures go through an approval process that involves the campus community as well as the president's cabinet. The College will continue to have all policies online upon implementation.

*Responsible Party: David Gingerella, Vice President for Administration & Finance/CFO*

*Anticipated Completion Date: Nov. 30, 2016*

## **Objectives and Scope of Audit**

The Bureau of Audits conducted a limited scope audit of Rhode Island College financial controls and human resources management.

The limited scope of the financial controls audit included activity occurring during fiscal year 2015. Areas of review included budgeting, sponsored project management, purchasing and general financial controls. The limited scope audit of human resource management practices included a review of policies, procedures and controls currently in place.

The purpose of this engagement was to determine if RIC performs financial and human resource activities in accordance with internal procedures, as well as policies set forth by the Rhode Island Council on Postsecondary Education.

## **Methodology to Conduct Audit**

As part of our audit work, the Bureau gained an understanding of existing controls in place at RIC for financial and human resources management. To address our audit objective, we performed the following:

- Researched administrative best practices in higher education.
- Obtained policies and procedures related to financial and human resource practices from the Council on Postsecondary Education.
- Reviewed Federal Uniform Grant Guidance.

- Interviewed personnel to gain an understanding of policies, procedures and processes.
- Reviewed budget and sponsored project documentation.
- Performed analyses of financial data.
- Tested samples of financial transactions related to sponsored projects.

# Appendix I

## Vacancies and Interim Appointments <sup>1</sup>

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### **Vacancies:**

Assistant Vice President Finance & Controller  
Director of Affirmative Action/EEO/D&I/Title IX Coordinator  
Business Admin, RIC Design, Innovation and Advanced Manufacturing Center (RICDIAMC)  
Assistant Controller - Bursar  
Director of Facilities and Operations  
Director of Publishing Services  
Senior Technical Programmer  
Assistant to the President  
Associate Director of Communications & Marketing

Assistant Principal  
Technical Programmer  
Senior Information Technologist, USS  
Graphic Communications Specialist  
Administrative Assistant to the President  
Access to Integrated Employment Specialist  
Information Technologist  
Data Management Coordinator - Admissions  
Assistant Director of Security - Admin  
Area Coordinator  
Administrative Secretary (VPSA)  
Vice President Admin & Finance

### **Interim Hires:**

Dean - School of Management  
Library Director  
Associate Dean of Student Life  
Director of College Dining Services  
Associate Director of Maintenance & Repair  
Associate Director of Financial Aid  
Executive Director- RIC Economic & Leadership Development  
Assistant Director of Facilities and Operations  
Manager of Human Resources (Generalist)  
Director of the Career Development Center

Personnel (HR) Assistant  
  
Coordinator of the President's Staff  
Vice President Advancement & College Relations  
Vice President for Student Affairs

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<sup>1</sup> This table applies only to non-classified positions as of March 25, 2016. Data provided by RIC's Office of Human Resources.

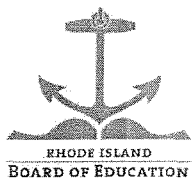
# Appendix II- List of Recommended Policies & Procedures

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To improve efficiencies and strengthen controls, RIC must implement policies and procedures relating to the following:

- Human Resource practices;
- A collaborative annual operating budget process;
- Capital budgeting and planning;
- Process and criteria for calculation of residence hall fees ;
- The responsibilities of the college and of the auxiliary facilities;
- A sponsored project account numbering convention;
- Maintenance and collection of sponsored project documentation;
- Post-award processes, including information related to budget monitoring and award close-out;
- Secondary allowability verification for purchase requisitions using sponsored project funds;
- Sponsored project salary allocation procedures;
- Cost transfers;
- The type of transactions which can be paid through the check request process; and
- Authorization for invoice payment.

All new policies and procedures developed must be transparent and adequately communicated to RIC staff.



State of Rhode Island and Providence Plantations  
Council on Postsecondary Education  
**OFFICE OF THE POSTSECONDARY COMMISSIONER**  
560 Jefferson Boulevard Suite 100  
Warwick, Rhode Island 02886-1304

June 10, 2016

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Chair

**Council on Elementary and  
Secondary Education**

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John J. Smith, Jr.

Dr. Jeffery A. Williams

Dorothy Z. Pascale, CPA, CFF  
Chief  
Department of Administration  
Bureau of Audits  
One Capitol Hill  
Providence, RI 02908-5889

Dear Chief Pascale:

On behalf of the Office of the Postsecondary Commissioner and Rhode Island College (RIC), we respectfully submit to you the joint responses to each of the findings and recommendations contained in the limited scope final audit report of Rhode Island College's financial controls and human resource practices.

In November 2015, the Office of the Postsecondary Commissioner requested that the Bureau of Audits review the current processes and procedures at RIC to make sure they were in line with state law and higher education board policy. We appreciate the thoroughness of this audit, and agree that the findings accurately reflect the college's operations at the time of the audit.

Since the audit was completed, a number of corrective actions have been taken, and these are cited in our response. This is due in large part to our recently appointed positions of vice president of administration and finance, budget director and grants director at Rhode Island College. We also have a new controller beginning work this month, and the new president of the college arrives in July. Having this staff in place will enable us to fully implement the formal policies and procedures necessary to provide efficiencies and align the college with best practices.

In closing, we found you and your staff to be professional and helpful throughout this process and we are appreciative of their efforts on this project.

Sincerely,

Jim Purcell  
Commissioner of Postsecondary Education  
Office of the Postsecondary Commissioner

Clark Greene  
Interim President  
Rhode Island College