



## OFFICE OF INTERNAL AUDIT

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April 13, 2020

SENT VIA EMAIL

Dear Directors,

The Office of Internal Audit (OIA) has completed its compliance audit of the use of Master Price Agreement (MPA) 372 for tree and shrub trimming removal activities at the Department of Environmental Management, Rhode Island National Guard, Department of Administration, and Department of Transportation in accordance with Section 35-7.1-2(a) of the Rhode Island General Laws. The audit was conducted in conformance with the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing and by the authority given to the unit as stated in accordance with the Rhode Island General Laws (RIGL) § 35-7.1-1 Establishment of The Office of Internal Audit. The recommendations included herein have been discussed with members of management, and we considered their comments in the preparation of this report.

RIGL §35-7.1-10 (d), entitled *Annual and interim reports*, states, "Within twenty (20) calendar days following the date of issuance of the management response copy of the draft audit report, the head of the department, agency, public body or private entity audited shall respond in writing to each recommendation made in the audit report...." Accordingly, management submitted their response to the audit findings and recommendation on April 10, 2020 and such response is included in this report. Pursuant to this statute, OIA may follow up regarding recommendations included in this report within one year following the date of issuance.

We would like to express our sincere appreciation to the staff for the cooperation and courtesy extended to the members of our team during the course of this audit.

Respectfully yours,

*Dorothy Pascale*

Dorothy Z. Pascale, CPA, CFF  
Chief

Cc: Jonathan Womer, Director, Office of Management and Budget  
Honorable William J. Conley, Jr., Chairperson, Senate Committee on Finance  
Honorable Marvin Abney, Chairperson, House Finance Committee  
Christina Faulkner, Chief Fiscal Affairs Controller, Militia  
Adam Brusseau, Assistant Director for Financial Central Management, Department of Environmental Management  
David Burlingame, Associate Director Financial Management, Department of Administration

## Compliance Audit Report

Audit Period. ....January 1, 2018 through October 31, 2019

The Office of Internal Audit (OIA) completed a compliance audit of Master Price Agreement 372 in effect for the period of January 1, 2018 through October 31, 2019. The objectives of the audit were to determine compliance with the MPA 372 contract terms, and with applicable state laws, rules and regulations. The scope of the audit was limited to the utilization of MPA 372 by four agencies: Department of Administration (DOA), Department of Environmental Management (DEM), Department of Transportation (DOT), and the Rhode Island National Guard based on the OIA's sampling methodology.

A total of 60 invoices paid under MPA 372 were selected for testing for the period under audit across four agencies. The audit revealed instances of vendor noncompliance with contract terms, rules and regulations, as well as, agency oversight control weaknesses as detailed in the *Recommendations* section.

### Background Information

There were two versions of MPA 372 applicable to this audit scope. MPA 372 per solicitation #7551087 had effective dates from January 1, 2017 through December 31, 2017 with a one-year renewal option noted on the contract. The State exercised this one-year renewal extending the end date to December 31, 2018. This MPA was established for *Tree Trimming and Removal* and was awarded to two vendors: Stanley Tree Service, Inc. and North-Eastern Tree Service, Inc. The terms of this contract include three tiers of services:

- Tier 1: Routine services scheduled in advance and occur during regular business hours.
- Tier 2: Emergency operation requiring immediate response, and which may require the vendor to halt their current operations to address. This type of service can occur during regular work hours, and non-business hours, is necessary for public safety, and occurs in one isolated area. Response time is within 2 hours of notification.
- Tier 3: Severe situation affecting a regional area such as a weather event or other disaster. Requires immediate response (within 2 hours of notification) and may require an extended workday. Stand-by crews may be obtained. Tier 3 is engaged only if the Governor declares an emergency, or within advance approval from The Chief Purchasing Office or Purchasing Agent in accordance with State of Rhode Island Regulation 9.6 Emergencies. Maximum of seventy-two (72) hours will be paid at this rate.

The second version of the MPA established for *Trim and Shrub Trimming/Removal* is in effect from January 1, 2019 through December 31, 2020. The terms for the three tiers of services under this MPA were identical to the prior version. However, the rates differed, and three vendors were engaged: Stanley Tree

Service, Inc., North-Eastern Tree Service, Inc., and Warwick Tree Acquisition.

## Recommendations and Management's Responses

### Maintain Adequate Documentation to Substantiate the Solicitation of Quotes

MPA 372 User Guide effective for January 1, 2019 through December 31, 2020 specifically requires state agencies to solicit three written quotes, from awarded MPA vendors, for each project or work order requiring routine services.

Twenty-five of the 34 (74%) requisitions tested for this requirement contained exceptions summarized by agency:

- DEM - 9 out of 10 requisitions
- DOT - 3 out of 11 requisitions
- DOA - 7 out of 7 requisitions
- RI National Guard - 6 out of 6 requisitions

The documentation available in RIFANS or maintained at the agencies and submitted upon OIA's request was insufficient to determine whether quotes were solicited from the three awarded vendors, as required per MPA 372 effective in 2019. Without an audit trail, the OIA is unable to determine if agencies are complying with the solicitation requirement.

#### *Recommendation (DEM, DOA, DOT, and RI National Guard):*

1. Maintain adequate supporting documentation to substantiate the solicitation of quotes.

*DEM Response:* DEM has trained staff on this topic to only requisition services when MPA guidelines are met. Staff will submit requisitions when all MPA guidelines have been met.

*Responsible Party:* Adam Brusseau (CFO)

*Anticipated Completion Date:* Already completed, February 2020.

*DOA Response:* We recognize that obtaining three or more quotes is necessary for this MPA. We have reminded staff that the three quotes they receive must be attached as backup documentation to the requisition request. Staff must also document if they have reached out to a vendor but did not receive a response. We are monitoring this going forward to ensure that all proper backup is given to our requisitioners.

*Responsible Party:* David Burlingame, Associate Director Financial Management

*Anticipated Completion Date:* Implemented

*DOT Response:* RIDOT has evaluated its policies and procedures to identify where additional controls can be put in place to ensure accurate supporting documentation is provided for the solicitation of quotes. RIDOT will review each request and the associated MPA User Guide to confirm what the requirements are. RIDOT will advise each section within the department on the guidance to ensure conformity.

*Responsible Party:* Dawn Cruz, DOT Acting CFO (401) 563-4651

*Anticipated Completion Date:* Implemented

*RI National Guard Response:* Effective immediately a NOTE to Buyer will be entered into the requisition verifying the facts. i.e. "EMS did not receive the requested bids from all three vendors on the MPA list. Please see attachments of email request sent to all MPA vendors and vendor bids received."

*Responsible Party:* Christina Faulkner, Chief Fiscal Affairs Controller

*Anticipated Completion Date:* Implemented

### Ensure Purchase Orders and Payments are Issued to Contracted Vendors

The MPA 372 User Guide effective for January 1, 2019 through December 31, 2020 includes the breakdown of services for each of the three tiers, including the description of the work and the corresponding rates. In addition, the vendors awarded under this MPA for that period are specifically listed as Stanley Tree Service, Inc., North-Eastern Tree Service, Inc., and Warwick Tree Acquisition.

One of the invoices tested for DEM was from North-Eastern Tree Recycling & Mfg., Inc. (a subsidiary of North-Eastern Tree Service, Inc.) in the amount of \$14,663 for **natural and dark pine blend delivered** to the Parks and Recreation Division. Although the quote and the invoice received were from North-Eastern Tree Recycling & Mfg., Inc., and not related to MPA 372, the requisition, purchase order and payment was erroneously issued to North-Eastern Tree Service, Inc. under MPA 372.

#### *Recommendation (DEM):*

2. Ensure invoices are matched against contracts and applicable purchase orders to ensure vendor payments are accurate.

*DEM Response:* DEM has notified staff that enter requisitions that only MPA goods and services can be procured under the MPA. Staff must procure these goods through other applicable MPAs, use small purchases delegated authority, or submit an RFP.

*Responsible Party:* Adam Brusseau (CFO)

*Anticipated Completion Date:* 3/17/2020

### Adhere to Contract Terms

The description of services to be performed as well as the corresponding hourly rates for each tier were established for each of the vendors awarded under MPA 372 and detailed in the User Guide.

Two of the 10 invoices tested for the RI National Guard and two of the 23 invoices tested for DEM did not include a cost breakout to determine if costs invoiced were accurate and complied with the terms of the MPA. These four invoices were not calculated using hourly rates established by the MPA, but instead, billed lump sum amounts. In addition, the description of the work on the invoices does not match the terms of work to be performed within the MPA.

There is an increased risk of inaccurate billings if sufficient invoice detail is not provided. If management does not maintain adequate oversight controls over the approval of invoices, State resources may be expended for services and/or goods which were not received or not in accordance with contractual terms.

*Recommendation (DEM, RI National Guard):*

3. Adhere to all stipulated contract terms and improve controls.

*DEM Response:* DEM has notified staff that all procurements made through the MPA must include cost breakouts as required within the MPA.

*Responsible Party:* Adam Brusseau (CFO)

*Anticipated Completion Date:* 3/17/2020

*RI National Guard Response:* Effective immediately “lump-sum” amounts are not allowed in the bid nor requisition creation process.

*Responsible Party:* Christina Faulkner, Chief Fiscal Affairs Controller

*Anticipated Completion Date:* Implemented.

### **Ensure Purchase Order is Awarded Prior to Start of Non-Emergency Work**

Purchasing rules and regulations state that no work shall proceed until the issuance of a purchase order or change order is approved and issued by the Division of Purchases. The purchase order serves as the contract between the State and the vendor and is issued as a notice to proceed in accordance with the terms of the solicitation and offer.

The following are the results of our testing for compliance with this rule:

- DEM - 12 out of 23 invoices were dated prior to purchase order
- DOA - 3 out of 11 invoices were dated prior to purchase order

A binding contract helps avoid potential conflicts, and a contract between the State and the vendor does not exist until a purchase order is issued. In instances in which there is no established purchase order prior to work performed, it cannot be ensured that an authorized agent is expending State funds.

*Recommendation (DEM, DOA):*

4. Communicate to vendors that work should not be performed without a purchase order and hold employees accountable who fail to abide by State rules and regulations.

*DEM Response:* DEM has reminded staff that all procurements must have a purchase order issued by the Division of Purchases prior to work being performed. Accounts payable staff have been directed not to enter any requisitions for work already performed and to notify the CFO if this were to occur.

*Responsible Party:* Adam Brusseau (CFO)

*Anticipated Completion Date:* 3/17/2020

*DOA Response:* We recognize that work should not be done without a purchase order. We have reminded staff that work cannot be done without a purchase order unless they have approval from Nancy McIntyre and Mike Mitchell.

*Responsible Party:* David Burlingame, Associate Director Financial Management

*Anticipated Completion Date:* Implemented.