



State of Rhode Island and Providence Plantations
Office of Management and Budget
OFFICE OF INTERNAL AUDIT
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March 28, 2017

Mr. Brian Card, Acting Executive Director
Rhode Island Resource Recovery Corporation
65 Shun Pike
Johnston, RI, 02919

Dear Acting Director Card:

The Office of Internal Audit has completed its limited scope performance audit of the Rhode Island Resource Recovery Corporation. The audit was conducted in accordance with Rhode Island General Laws (RIGL) §35-7.1-1 and with the International Standards for the Professional Practice of Internal Auditing. The recommendations included herein have been discussed with members of management, and we considered their comments in the preparation of this report.

RIGL §35-7.1-10(d), entitled *Annual and interim reports*, states that, "Within twenty (20) days following the date of issuance of the final audit report, the head of the department, agency or public body 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 March 8, 2017, and such response is included in this report. Pursuant to this statute, the Office of Internal Audit may follow up regarding recommendations included in this report within one year following the date of issuance.

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

Respectfully yours,

A handwritten signature in black ink, appearing to read "Michael Sprague".

Michael Sprague, CIA
Deputy Chief

c—Jonathan Womer, Director, Office of Management and Budget
Honorable Daniel DaPonte, Chairperson, Senate Committee on Finance
Honorable Marvin Abney, Chairperson, House Finance Committee

Audit Executive Summary

Why the Office of Internal Audit Did This Review

Rhode Island General Law §42-155-7, *Audit of quasi-public corporations*, requires the Office of Internal Audit to conduct a performance audit of all quasi-public corporations once every five years. The Office of Internal Audit established an initial five-year schedule; this audit was performed in compliance with the statute and the established schedule.

Background Information

The Rhode Island Resource Recovery Corporation (RIRRC) is a quasi-state agency, established in 1974 by the Rhode Island General Assembly to manage solid waste.

RIRRC manages the State's recycling program and owns and operates the Central Landfill and Materials Recycling Facility in Johnston. RIRRC is governed by a nine-member board of commissioners and is managed by an executive director.

To Strengthen Controls, the Rhode Island Resource Recovery Corporation should:

- Promote transparency by updating, formalizing and enforcing purchasing policies and procedures.
- Comply with State of Rhode Island Division of Purchases requirements when using State Master Price Agreements (MPAs).
- Strengthen control over employee travel expense reimbursements.

The Rhode Island Division of Purchases Should:

- Clarify language in Master Price Agreements for Requirements Applicable to All Users.

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Introduction

The Rhode Island Resource Recovery Corporation (RIRRC) is a quasi-public agency, established in 1974 by the Rhode Island General Assembly to manage solid waste. RIRRC manages the State's recycling program, owns and operates the Central Landfill and Materials Recycling Facility in Johnston. RIRRC is governed by a nine-member board of commissioners and is managed by an executive director.

The mission of RIRRC is to provide safe, environmentally compliant, clean and affordable solid waste and recycling services for the Rhode Island community.

Recommendations and Management's Responses

Procurement Introduction

Public agencies such as RIRRC may, but are not required to, utilize the centralized purchasing system of the State of Rhode Island. If the public agency chooses to use State Purchasing, usage must be in accordance with all Purchasing policies, procedures and regulations promulgated by the State Chief Purchasing Officer.

If the public agency chooses to use internal purchasing functions, they must adhere to the general principles, policies and practices set forth in the State Purchases Act, RIGL §37-2-12(1). RIRRC uses internal purchasing functions; and as a public agency, the executive director is considered the Chief Purchasing Officer. However, on occasions RIRRC also utilizes the State Master Price Agreements (MPAs), and for those transactions must follow State procedures as noted above.

Improve Transparency by Updating, Formalizing and Enforcing Purchasing Policies and Procedures

The agency has formal procurement rules on file at the Rhode Island Secretary of State's Office that were created in 1990 by RIRRC (then known as Rhode Island Solid Waste Management Corporation) and differ from the current procedures, but are no longer followed by RIRRC. RIRRC currently uses an informal document called the *Purchases Procedure Outline* as its internal purchasing guidance which does adhere to the general principles and policies of State Purchasing regulations.

We reviewed 38 contracts totaling \$49,928,026 from various categories and approval levels representing approximately 51 percent of contract procurements reported by RIRRC in 2015 and 2016. These procurements were generally in compliance with the informal procedures and contract requirements.

We also reviewed 20 non-contract procurements representing \$96,225, but we determined that the informal procedures are not being followed in all instances. As an example, while the current informal *Purchases Procedure Outline* requires quotes for purchases less than \$5,000 and documentation of the reason for selection, we found this provision was not being followed by staff and considered optional by management. Also, while RIRRC uses a *Bid Process Checklist* to document some bidding procedures

required in the *Purchases Procedure Outline* are followed, controls ensuring required documentation is obtained and proper approvals are made are inadequate to ensure compliance with existing procedures.

The lack of current formal procurement policies and procedures, and the inconsistent adherence to some of the informal procedures currently in place, could lead to inefficient transactions and potentially waste and abuse.

Recommendations:

- 1) Develop formal procurement policies and procedures.
- 2) Strengthen controls to ensure that all formal procurement policies and procedures are enforced.

Management's Response:

It is not a State requirement for non-contracts (small purchases) to get multiple quotes. This internal document that they are referring to was very outdated, and the previous administration did want people to get multiple quotes when it was possible for a small purchase. Internal document will be updated.

Responsible Party: Lori Perron, Director of Purchasing

Anticipated Completion Date: August 31, 2017

Adhere to State Purchasing Regulations When Using State Master Price Agreements

State Purchasing rules for MPAs applicable to Communications and Marketing Services state that:

Executive Branch Agencies shall adhere to the following instructions in selecting a vendor from the MPA. For projects up to \$25,000 an agency may select any vendor listed on the MPA. For projects \$25,000 to \$250,000 the agency shall obtain a minimum of three quotes from vendors listed on the MPA.

The intent of the Division of Purchases was that this would apply to any user of the MPA, although the use of "executive branch agencies" made the requirement ambiguous.

RIRRC made purchases for these types of services exceeding \$25,000 assuming it was exempt from soliciting three bids off the MPA since it is not an "executive branch agency" or "state agency." RIRRC assumed that as a quasi-public agency, a selection could be made directly from the MPA, regardless of dollar amount, without soliciting quotes from approved vendors on the MPA.

Recommendation:

- 3) Always follow State Purchasing rules and regulations when utilizing the State Master Price Agreements for purchases.

Management's Response:

This will become very time consuming for quasi's to mini-bid off the state MPAs. The whole purpose and attraction of utilizing these is because State Purchasing does the negotiation up front making it convenient to use the rates already contracted under.

Responsible Party: Lori Perron, Director of Purchasing

Anticipated Completion Date:

If Division of Purchasing clarifies language that all users, not just executive branch users, must follow the Division of Purchasing Regulations, RIRRC will immediately comply.

Recommendation to Division of Purchases:

- 4) Clarify language in MPAs to clearly state that all users of State MPAs must follow the State of Rhode Island Division of Purchases regulations.

Management's Response:

The Division of Purchases agrees with Recommendation 3. All future MPA "User Guides" shall state that State agencies, quasi-governmental entities, municipalities and other parties who avail themselves of MPA vendor services are required to follow all MPA requirements and the State Procurement Regulations relative to the solicitation and award of contracts to an MPA vendor.

Responsible Party:

Nancy R. McIntyre, State Purchasing Agent, and Michael D. Mitchell, Deputy Purchasing Agent

Anticipated Completion Date: On or before July 1, 2017.

Strengthen Controls over Travel Expenses and Employee Reimbursements

RIRRC has a *Travel and Reimbursement Expense Policy* and specific travel regulations as required by statute to ensure that all employees have clear and consistent requirements for business travel and related expenses. RIRRC also has a Food and Refreshment policy.

Twenty two (22) travel reimbursements totaling \$17,290.62 during FY15 and FY16¹ were reviewed to determine if reimbursements to employees for travel expenses were made in accordance with the travel and reimbursement expense policy. Although there was approval and supporting documentation for all of the reimbursements, there were instances in which:

- 1.) The policy and procedures were not adhered to, including:
 - Nine instances totaling \$448.72, in which the reimbursements exceeded the supporting documentation submitted. (Can I get the detail for this?)
 - Twenty-two instances in which the *Travel Authorization Form*² was not completed.
- 2.) Reimbursements were made for items not addressed in the policies:
 - Neither the travel and reimbursement expense policy nor the separate food and refreshment policy address non-travel related meals that were made or the allowability of meal expenses related to vendors or customers.

Mileage Reimbursements

A sample of 27 employee mileage reimbursements totaling \$4,856.53 was reviewed to determine if they were made in accordance with the procedures. In six instances (22% error rate), the odometer readings were missing from the mileage reimbursement form, and in two instances the commuter miles were not deducted or could not be determined if deducted. Accurate mileage reimbursement cannot be ensured without appropriate completion of mileage forms.

Recommendations:

- 7.) Require submission of travel authorization forms and approval prior to travel as stipulated in the policies and procedures.
- 8.) Reimburse employees for meals only if there is adequate supporting documentation submitted, or follow the State system of a per-day allowance.
- 9.) Expand the Travel and Reimbursement Expense and the Food and Refreshment policies and procedures on meals to require detailed food bills or consider using the State meal allowance regulations, and clarify in policy what is allowed for all non-travel related meals.
- 10.) Revise mileage reimbursement form to clearly identify when commuter miles are deducted.

Management's Response:

7. Revise policy to no longer require travel authorization form. We feel this is no longer needed based on the size of the organization, limited amount of travel and dual signatures on any payments and reimbursements. Additionally, verbal approval is required from the employee's department director or in the event the travel is for the department director, the executive director.

¹ These reimbursements were selected from RIRRC's detailed general ledger travel account.

² The RIRRC travel policy requires employees to complete a Travel Authorization Form in advance of travel to obtain authorization for the expenditures.

8. The Travel policy was revised as part of the 'Transparency act' in 2015. Admittedly, it has been difficult to monitor and enforce. Based on these findings, RIRRC recommends changing the existing reimbursement based policy to a per-day allowance. The per-day allowance will follow the current policy used by the State of Rhode Island.

9. RIRRC will modify the existing policies to change the reimbursement requirement for meals to follow the State meal allowance regulations. RIRRC will review with its Governance committee the current food and refreshment policy and clarify what non-travel related meals are allowed to be paid.

10. Mileage reimbursement form will be modified to deduct normal commuting expenses from travel related mileage when traveling directly from home.

Responsible Party: Dean Huff, Chief Financial Officer

Anticipated Completion Date: June 30, 2017

Objectives and Scope

The objective of the activity under review was to assess whether RIRRC is achieving economy, efficiency and effectiveness in the employment of all available resources to achieve its mission and to determine compliance with the Quasi-Public Accountability and Transparency Act [RIGL §42-155(7)].

The primary areas that the audit focused on were:

- Travel and entertainment expenses
- Advertising expenses
- Purchasing and bid processes to acquire services
- Recycling Program, including municipal profit sharing program
- Scale House and Tipping Fees

Methodology

As part of our audit work, the Office of Internal Audit (OIA) gained an understanding of existing controls in place at the RIRRC for performance management. To address our audit objective, we performed the following:

- Reviewed, documented and gained an understanding of meeting minutes.
- Depicted work flows.
- Identified process control and mission centric risks.
- Assessed the risks.
- Reviewed the third-party vendor contracts.
- Assessed compliance with contractual terms and necessity of contract to mission achievement.
- Noted control or efficiency deficiencies.

The OIA used an external audit firm, Cayer Caccia, LLP (CC), to supplement its staff during the performance of this audit. CC performed the detailed audit work and was selected using a competitive bidding process.