

State of Rhode Island and Providence Plantations

Department of Administration
BUREAU OF AUDITS
One Capitol Hill
Providence, Rhode Island 02908-5889
TEL #: (401) 574-8170

October 6, 2015

Ms. Jamia R. McDonald
Chief Strategy Officer
Department of Children, Youth, and Families
Rhode Island Executive Office of Health and Human Services
101 Friendship Street
Providence, Rhode Island 02903

Mr. Peter Kilmartin
Attorney General
Rhode Island Office of the Attorney General
150 South Main Street
Providence, Rhode Island 02903

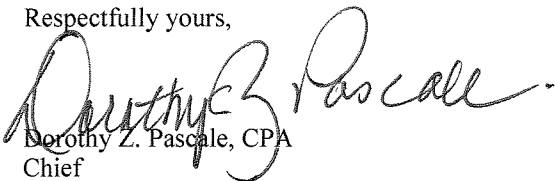
Dear Ms. McDonald and Mr. Kilmartin:

The Bureau of Audits has completed its contract compliance audit of the State of Rhode Island vendor, the Center for Southeast Asians. The purpose of the engagement was to determine if the Center for Southeast Asians expensed funds in accordance with State contract requirements. The audit was conducted in accordance with Rhode Island General Law (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.

Rhode Island General Law §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 October 5, 2015, 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.

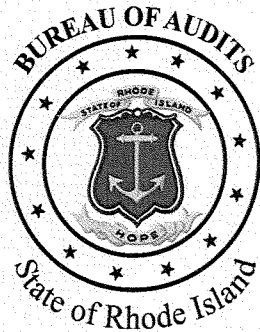
We would like to express our sincere appreciation to the staff of the Center for Southeast Asians, the Attorney General, and the Department of Children, Youth, and Families for the cooperation and courtesy extended to the members of our team during the course of this audit.

Respectfully yours,



Dorothy Z. Pascale, CPA
Chief

c- Michael DiBiase, Director, Department of Administration
Elizabeth Roberts, Secretary, Executive Office of Health and Human Services
Honorable Daniel DaPonte, Chairperson, Senate Committee on Finance
Honorable Raymond Gallison, Chairperson, House Finance Committee



Executive Summary

Why the Bureau Did This Review

This limited scope vendor compliance audit was conducted as a result of the increased risk to vendor oversight as noted in our July 30, 2015, DCYF Procurement and Contract Management Controls audit report.

Background Information

The Center for Southeast Asians (CSEA) is a not-for-profit corporation which provides social services and programs for the Southeast Asian community and translation services to State agencies.

The CSEA is primarily supported through government grants and contracts and program fees. The CSEA has received \$973,245 from DCYF and \$120,000 from the Office of the Attorney General during fiscal years 2014 and 2015 in addition to other agency work. Total State payments to the CSEA for fiscal years 2014 and 2015 were \$1,324,150.

To Improve Controls and Address Waste of Funds:

➤ DCYF - recover unexpended funds of \$433,962 from the Center for Southeast Asians.

➤ DCYF - recoup unallowable expenditures totaling \$10,890.

➤ Rhode Island Attorney General - determine allowability of expenditures.

➤ Rhode Island Attorney General – recoup unallowable expenditures, if any.

➤ State Agencies - implement fiscal monitoring procedures to verify vendors appropriately allocate costs.

Contents

Introduction.....	4
Vendor Information.....	4
Fiscal Relationship between the Center for Southeast Asians and the Department of Children, Youth, and Families.....	4
Health & Wellness Account.....	5
Wellness, Support & Caring Account.....	5
Wellness for Emerging Principals (also known as Aspiring Principals) Account.....	5
Fiscal Agent Accounts Summary.....	6
Recommendations for Improved Controls and Management Responses	7
DCYF Contract Agreement with Center for Southeast Asians.....	7
Recoup Funds from Vendor.....	7
Unexpended Funds.....	7
Unallowable Expenditures.....	7
Develop a Written, Well-Defined Cost Allocation Plan	9
Objective and Scope.....	10
Methodology	10
Appendix I- Payments to the Center for Southeast Asians per State Agency	11
Appendix II- Payments to Former DCYF Director from Wellness, Support & Caring Account	12
Appendix III- Unexpended Funds in Fiscal Year 2014.....	13
Appendix IV- Unexpended Funds in Fiscal Year 2015	14
Appendix V--Center for Southeast Asians Budget to Actual Comparison for Rhode Island Attorney General Contract.....	15
Appendix VI-- Rhode Island Attorney General Management’s Response to Recommendations	16

Introduction

This limited scope vendor compliance audit was conducted as a result of the increased risk to vendor oversight as noted in our July 30, 2015, DCYF Procurement and Contract Management Controls audit report.

This audit report addresses control, compliance, and relationship issues noted between DCYF and the CSEA, as well as a review of the CSEA contract with the Office of the Attorney General. The Bureau discussed its findings and recommendations with agencies and vendor management and considered their comments in preparation of this report.

Vendor Information

The CSEA's mission is to promote the prosperity, heritage, and leadership of Southeast Asians in Rhode Island. The agency was founded in 1987 by a collaboration of associations to serve four Southeast Asian communities (Cambodian, Hmong, Laotian, and Vietnamese). The CSEA is a not-for-profit corporation organized under the laws of the State of Rhode Island and established as a charitable organization under Section 501 (c) (3) of the Internal Revenue Code.

The CSEA provides social services and programs for adults and families, academic enrichment programs via summer and after school activities, basic needs programs with on-site Meals on Wheels, and participates in the Volunteer Tax Assistance Program. Also, CSEA supports self-sustaining programs such as its International Language Bank (ILB), a fee-for-service program that provides interpretation and translation services in over 40 languages.

CSEA is primarily supported through government grants and contracts, and program fees. Refer to Appendix I for a summary of payments to the CSEA from State agencies during State fiscal years 2014 and 2015.

Fiscal Relationship between the Center for Southeast Asians and the Department of Children, Youth, and Families

According to the State of Rhode Island Purchasing Rules and Regulations, Section 2.2.1.1 states no purchase or contract shall be binding on the State or any agency thereof unless approved by the department [of Administration] or made under general regulations which the Chief Purchasing Officer may prescribe. Further, Section 2.2.1.1.1, the Purchasing Authority shall be defined as the authority to act on behalf of the State to commit funds, enter into binding agreements or contracts, dispose of State property, or in any other manner control procurement or obligate the State. The former DCYF Director does not meet the definition of a Purchasing Authority in the above-referenced regulation.

DCYF entered into informal fiscal agent¹ arrangements with CSEA, with CSEA establishing checking accounts and retaining and spending funds as instructed by the former DCYF Director. In addition, the CSEA or DCYF were unable to provide sufficient documentation to support a substantial number of expenditures in the accounts.

¹ A fiscal agent is a proxy that manages fiscal matters on behalf of another party.

The former DCYF Director circumvented the State of Rhode Island Purchasing Rules and Regulations by entering into a fiscal agency relationship with the CSEA as discussed in the following sections of this report.

Health & Wellness Account

DCYF received grant funds from two charitable foundations, Foundation 1 (\$7,765) and Foundation 2 (\$16,250), for a total of \$24,015 to support wellness initiatives. DCYF amended its established contract with CSEA as discussed below to transmit the \$24,015 to CSEA. The contract amendment between DCYF and CSEA created this relationship in which CSEA would act as “fiscal agent” and hold and disburse funds on behalf of DCYF. A checking account in the name of DCYF was established by CSEA with the \$24,015. There were no guidelines for this fiscal agency arrangement; CSEA expended funds upon receipt of a DCYF e-mail directing the payment.

During the Bureau’s audit work, neither the grant agreements from Foundation 1 or Foundation 2 were provided. Due to this fact, the Bureau was unable to determine if expenditures aligned with the intent of the awards.

Wellness, Support & Caring Account

As a result of the DCYF application to fund its Wellness Support and Caring initiative, Foundation 1 granted \$10,000 directly to CSEA as fiscal agent for DCYF. The grant application included the following statement as one of the goals of the initiative:

One of the major goals of the Department of Children, Youth and Families (DCYF) is related to the wellness of staff. It is our belief that wellness of staff will help lead to a healthier agency and a stronger and more coordinated system of care for Rhode Island’s children, youth and families.

The CSEA transferred \$7,431.06 from the above-mentioned DCYF Health & Wellness Account per the former DCYF Director’s e-mail request. Therefore, the Wellness, Support & Caring account balance increased from \$10,000 to \$17,431.06. Our review of this Wellness Support & Caring account found:

- \$9,851.26² paid to the former DCYF Director, including \$1,790.74 directly to the former Director of DCYF after termination.
- \$200.00 was paid to a charitable arts organization as requested via e-mail by the former DCYF Director after termination date.
- \$1,128.88 paid to a Newport Rhode Island hotel for a “SEA Retreat.”
- \$624.93 paid to the CSEA of which \$200 was for a CSEA fund raising event and \$424.93 for a restaurant reimbursement not related to the fundraising event.

Wellness for Emerging Principals (also known as Aspiring Principals) Account

The CSEA received a \$5,000 grant from Foundation 1 for support of the Emerging Principals Group. The grant award did not detail the purpose of the grant; however, the Small Grants Report submitted by the former DCYF Director stated the organization’s focus on wellness and leadership for aspiring educators to become principals.

Foundation 1 provided the grant award letter; however, a representative from the Foundation stated that there was no grant application or budget document for this grant award to the CSEA. The grant award letter did not mention DCYF or the former DCYF Director acting as a consultant for CSEA. The account

² Refer to Appendix II for further detail on payments made to the former DCYF Director.

documentation reviewed and Small Grants Report Form detailed the former DCYF Director as a consultant, during her tenure at DCYF, to CSEA for this project.

E-mail correspondence was the sole support for expense requests. During the review of this account, we found:

- \$2,500.00 paid to former DCYF Director. An e-mail request from former Director included a statement as follows, *“Also, instead of getting a check for each meeting I facilitate, I will just request \$2,500.00 for consultation.”*
- \$1,018.70 requested by and paid to the former DCYF Director subsequent to termination date with no detailed documentation supporting this payment.
- \$681.41 requested by and paid to the former DCYF Director as reimbursement for several miscellaneous expenses, such as: restaurants, supplies, and an alcohol purchase.
- \$566.01 requested by and paid to former DCYF Director as reimbursement for a meeting at a restaurant.

The former DCYF Director may have violated the State Code of Ethics by serving as a paid consultant to an agency vendor for whom she has the ability to award work.³

Fiscal Agent Accounts Summary

According to the United States Office of Inspector General,

- Waste relates primarily to mismanagement, inappropriate actions and inadequate oversight.
- Abuse includes the misuse of authority or position for personal financial interests.

A portion of the payments made within the purview of this fiscal agent relationship can be classified as waste and abuse of State funds. Due to a lack of DCYF monitoring of this vendor⁴ and minimal supporting documentation, there is a high probability and risk that funds were misappropriated.

The former DCYF Director:

- Circumvented the State of Rhode Island Purchasing Rules and Regulations by entering into fiscal agency arrangements with the CSEA.
- Did not provide sufficient supporting documentation for reimbursements.
- Appeared to violate the State Ethics Code.

All matters discussed above have been referred to the appropriate authorities for further action.

³ Refer to Ethics Code Sections 36-14-5(a) and (b) and 36-14-7.

⁴ Refer to the Bureau of Audits July 30, 2015, DCYF report.

Recommendations for Improved Controls and Management Responses

DCYF Contract Agreement with Center for Southeast Asians

Recoup Funds from Vendor

Unexpended Funds

The provision in Addendum IV of the contract between DCYF and the CSEA states:

The PROVIDER [vendor] agrees any unexpended funds from this agreement are to be returned to the DEPARTMENT at the end of the time of performance unless the DEPARTMENT gives written consent for their retention.

The CSEA has a total of \$433,962.08 in which grant revenues exceed grant expenditures for fiscal years 2014 and 2015⁵ as detailed in the chart below.

Fiscal Year Ended June 30	Revenue	Expenditures	Unexpended
2014	\$456,512.72	\$193,484.74	\$263,027.98
2015	\$492,718.16	\$321,784.06	\$170,934.10
Total	\$949,230.88	\$515,268.80	\$433,962.08

DCYF is unaware of unexpended funds as a result of inadequate contract monitoring. Rather than unexpended funds being returned during fiscal year 2014, the contract was increased during fiscal year 2015. To date, the performance period has ended, CSEA has not returned the unexpended funds, and the Department did not give written consent for their retention. Refer to Appendix III & IV for a financial detail breakdown of unexpended funds.

Unallowable Expenditures

CSEA and DCYF entered into a contract in 2012, and this contract has since been amended six times without State of Rhode Island Division of Purchases' approval. Through the initial contract and the multiple amendments, the following services are provided:

- International Language Bank (ILB) services for interpreting and translation
- Responsibility-based case management model for group sessions and comprehensive direct services (CM)
- Family preservation (FP) in the Southeast Asian community
- Wellness Initiatives for DCYF staff and community providers⁶
- Victim services⁷

The contract entered into between the CSEA and DCYF includes separate budgets for the ILB, CM, and FP detailing out expense categories for allowable activity. In a judgmental sample of these three services, 40

⁵ The Bureau's scope was limited to two fiscal years, 2014 and 2015. The vendor's financial records were incomplete and had no audit trail for fiscal years 2013 and prior.

⁶ Wellness Initiatives were entered as fiscal agent agreements and are discussed in the report above.

⁷ This portion of the contract was not included in the Bureau's sample.

transactions totaling \$14,513.77 were selected to test for allowability per the contract terms, and 11 of the 40 were deemed unallowable equaling \$1,442.11 (10%). The vendor provided restaurant receipts to support the expenditure for which we find to be unallowable according to the submitted budget. Also, an additional three expenditures, totaling \$625.09, were questionable due to a lack of supporting documentation.

Further, the DCYF contract with CSEA did not include any budget line items for meals, entertainment or meetings.⁸ Therefore, all amounts recorded by the vendor in their DCYF contract *Transaction Detail by Account report- Meeting Expense G&A Account* are unallowable; totaling \$10,890.53.⁹

The DCYF and CSEA contract states the following within Paragraph 6 of the Governing Law & Terms and Conditions:

...Failure of the Provider to perform or deliver services or reports under this Agreement could result in the withholding of payments by the Department to the Provider. If any costs are questioned or disallowed as a result of an audit, the provider is responsible for repayment to the Department.

The CSEA did not adhere to the budget per its agreement with DCYF as evidenced by expenditures for meetings at restaurants. Additionally, DCYF was not overseeing or monitoring its contracts as noted in the Bureau's July 30, 2015, limited scope audit report. DCYF was unaware of these expenditures; and as a result, did not determine they were unallowable resulting in a misuse of State funds.

Recommendations for DCYF:

1. Recover unexpended funds, \$433,962.08, from the CSEA in accordance with contract terms.
2. Recoup \$10,890.53 of unallowable expenditures.

Management's Response- DCYF

On September 23, 2015, DCYF made a demand for payment in full of all funds including statutory interest. CSEA has requested a meeting.

Responsible Party

Chief Strategy Officer/DCYF CFO

Anticipated Completion Date

No later than December 31, 2015

Rhode Island Office of the Attorney General Should Ensure Center for Southeast Asians Expenditures Align with Award Intent

The CSEA was awarded \$120,000 from the Rhode Island Office of the Attorney General (Rhode Island AG) to support financial counseling of its community members as detailed in its budget narrative. According to

⁸ Food noted in the CM and FP budgets as part of office supplies is not indicative of restaurant meals.

⁹ The Bureau was limited to the Transaction Detail by Account Reports provided by the CSEA, and as such, the CSEA should ensure this unallowable amount is inclusive of all Meeting Expenses G&A Accounts applicable to the DCYF contract.

the contract terms noted below, payment was contingent upon full compliance with the agreement. The scope of activities for the Rhode Island AG contract with CSEA includes:

- Supporting the financial counselling of community members.
- Establishing outreach and education programs on financial obligations and realities of home ownership.
- Assisting individual community members with foreclosure and home ownership issues.
- Providing bilingual and bicultural counselors to assist clients in deals with financial institutions.
- Sponsoring public access television program as part of outreach efforts.

The contract agreement does not include language for recouping funds or reprogramming amounts amongst budget line items. The detail provided by the CSEA for these expenditures was insufficient in four of the eleven expenditures tested to determine if they pertained to the above-listed activities. The budget narrative did not coincide with the actual expenditures as illustrated in Appendix V. The CSEA may not be adhering to the contract budget, and the Rhode Island AG may be inadequately reviewing the quarterly reports submitted per contract agreement to identify the waste of State funds.

Recommendations for the Rhode Island AG:

3. The Rhode Island AG should determine if the CSEA expenditures adhere to the intent of the award.
4. All expenditures deemed unallowable per the contract terms should be recouped.

Management's Response- Rhode Island AG

Refer to Appendix VI for detailed response.

Responsible Party

Christopher Cotta, Director of Administration and Finance

Anticipated Completion Date

April 1, 2016

Develop a Written, Well-Defined Cost Allocation Plan

Non-profit agencies that receive grant funding must be able to identify costs associated with each particular grant and have a sensible way to allocate the costs. This cost allocation method should be documented.

The CSEA has no formal or documented cost allocation plan. For example, consultant and interpreter fees are split 70/30 to DCYF and the International Language Bank (ILB). According to the CSEA Executive Director, this allocation is developed based on the capacity of staff devoted to service. However, there is no tracking of staff time per project noted on the payroll sheets. The 70/30 split appears arbitrary and based on funds available. Further, the Bureau reviewed an indirect cost charged to DCYF for telephone expenses. The CSEA did not have documentation to support the allocation.

The CSEA does not have a written, agency approved, well-defined cost allocation plan in place; as a result, the CSEA may have been billing State agencies incorrectly. State agencies should have fiscal monitoring procedures in place to verify vendors have an appropriate method of allocating costs.

Recommendations for DCYF and Rhode Island AG:

5. Implement fiscal monitoring procedures to verify vendors appropriately allocate costs.
6. Ensure vendors appropriately track and report time and costs associated with agency contracts.

Management's Response- DCYF

5. Completed.
6. Training of staff in process.

Responsible Party

DCYF CFO

Anticipated Completion Date

October 31, 2015

Management's Response- Rhode Island AG

Refer to Appendix VI for detailed response.

Responsible Party Christopher Cotta, Director of Administration and Finance

Anticipated Completion Date April 1, 2016

Objective and Scope

The Bureau of Audits (Bureau) conducted a limited scope audit of the Center for Southeast Asians (CSEA). The purpose of this engagement was to determine if the CSEA was expending funds in accordance with State contract stipulations for services performed during fiscal years 2014 and 2015.

Methodology

To address the vendor compliance audit objective, we performed the following:

- Interviewed vendor personnel including the Executive Director and Bookkeeper.
- Examined contracts between vendor and DCYF, and vendor and Rhode Island Attorney General.
- Tested samples of expenses and payroll allocations for compliance with contract requirements.
- Analyzed fiscal agent transactions related to DCYF.
- Reviewed the board meeting minutes.

Appendix I- Payments to the Center for Southeast Asians per State Agency

State Agency	FY 2014	FY 2015	Total
Department of Children, Youth, And Families	\$480,527.72 ¹⁰	\$ 492,718.16	\$ 973,245.88
Department of Transportation	\$ 68,090.17	\$ 56,939.48	\$ 125,029.65 ¹¹
Office of the Attorney General	\$120,000.00		\$ 120,000.00
Department of Public Safety	\$ 21,546.37	\$ 21,972.22	\$ 43,518.59
Department Of Human Services	\$ 10,738.00	\$ 26,485.50	\$ 37,223.50
Department of Labor And Training	\$ 6,690.23	\$ 3,446.27	\$ 10,136.50
Department of Health	\$ 9,821.98	\$ 150.00	\$ 9,971.98
General Assembly – Constitution	\$ 1,500.00	\$ 3,000.00	\$ 4,500.00
Department of Administration	\$ 125.00	\$ 200.00	\$ 325.00
Department of Behavioral Healthcare , Dev Disabilities & Hosp	\$ 108.50		\$ 108.50
Executive Office of Health And Human Services		\$ 45.00	\$ 45.00
Judicial Department – Constitution		\$ 45.00	\$ 45.00
Total	\$719,147.97	\$ 605,001.63	\$ 1,324,149.60

¹⁰ Included in this payment amount is \$24,015 which was held and disbursed by CSEA, acting as fiscal agent, on behalf of DCYF.

¹¹ The Department of Transportation payments to the CSEA are on a reimbursement basis. As such, it was not considered high risk by the Bureau, and therefore, not included in the sample of contracts tested.

Appendix II- Payments to Former DCYF Director from Wellness, Support & Caring
Account

Check Date	Amount	Description from email directive
9/3/2014	\$575.00	Wellness Retreat Conference Fee
9/15/2014	\$282.02	Catering to DCYF-receipt provided
9/16/2014	\$40.72	Wellness Luncheon Meeting
9/19/2014	\$1,650.00	Membership dues to Belizian G. (BG) Dues
9/29/2014	\$299.65	Food for Regions 1 and 4 Appreciation Luncheon
10/27/2014	\$64.37	Lunch for Regional Directors Retreat
12/11/2014	\$1,387.32	Gift cards Luncheon and SEA retreat Hotel Costs
12/12/2014	\$825.00	Reimbursement for "paying forward"
1/2/2015	\$295.79	Staff Appreciation Luncheon for Regions I and IV for food & items
1/5/2015	\$2,640.65	Handwritten Note of Amount, no additional detail
5/29/2015	\$712.76	Dinner meetings at two restaurants (After Termination)
7/8/2015	\$1,077.98	Written request for donations and flight (After Termination)

Appendix III- Unexpended Funds in Fiscal Year 2014

Total Payments from Department of Children, Youth and Families to the Center for Southeast Asians		\$456,512.72
International Language Bank Grant Expenses per Transaction Detail:		
Consultants	88,387.00	
Salaries	46,144.86	
Payroll Taxes	8,306.08	
Meeting Expense G & A	2,066.84	
Translations	1,773.47	
Travel Reimbursement	981.33	
Telephone	414.29	
Printing/Copying	323.12	
Accounting/Auditing	300.00	
Postage	297.23	
Office Supplies & Expense	288.74	
		\$149,282.96
Case Management Grant Expenses per Transaction Detail:		
Salaries	22,818.59	
Payroll Taxes	4,107.35	
Meeting Expense G&A	722.56	
Office Supplies & Expense	318.90	
Travel Reimbursement	142.35	
Charitable Donations	100.00	
Admin. Charge Expense	50.00	
Telephone	50.00	
		\$28,309.75
Family Preservation Grant Expenses per Transaction Detail:		
Salaries	12,669.11	
Payroll Taxes	2,280.45	
Office Supplies & Expense	558.35	
Meeting Expense G&A	384.12	
		\$15,892.03
Total Expenses		\$193,484.74
Unexpended Funds		\$263,027.98

Appendix IV- Unexpended Funds in Fiscal Year 2015

Total Payments from Department of Children, Youth and Families to the Center for Southeast Asians	\$492,718.16
International Language Bank Grant Expenses per Transaction Detail:	
Salaries	100,877.90
Consultants	94,312.69
Payroll Taxes	18,158.03
Meeting Expense G&A	7,282.46
Travel Reimbursement	7,088.87
Office Supplies & Expense	2,768.31
Insurance	1,700.22
Computer/Equipment Rental	1,670.00
Internet Service	1,635.00
Telephone	1,511.20
Space Costs	988.22
Bad Debt Expense	818.80
Printing/Copying	810.36
Gas	510.00
Workers Comp. Insurance	362.25
Transportation	239.74
Postage	156.74
	\$240,890.79
Case Management Grant Expenses per Transaction Detail:	
Salaries	41,382.76
Payroll Taxes	7,448.89
Office Supplies & Expense	370.16
Meeting Expense G&A	263.44
National Conference	115.59
Printing/Copying	85.95
Travel Reimbursement	8.70
	\$49,675.49
Family Preservation Grant Expenses per Transaction Detail:	
Salaries	24,361.01
Payroll Taxes	4,385.00
Office Supplies & Expense	1,703.69
Internet Service	547.15
National Conference	115.59
Meeting Expense G&A	92.00
Travel Reimbursement	13.34
	\$31,217.78
Total Expenses	\$321,784.06
Total Unexpended Funds	\$170,934.10

Appendix V--Center for Southeast Asians Budget to Actual Comparison for Rhode
Island Attorney General Contract

Expense Category	Budget Amount	Actual Amount	Unexpended (over expended)
Consultants	\$ 11,830.00	\$ 1,359.00	\$ 10,471.00
Equipment Maintenance	\$ -	\$ 393.97	\$ (393.97)
Meeting Expense	\$ -	\$ 501.92	\$ (501.92)
Training and Development	\$ -	\$ 1,354.00	\$ (1,354.00)
Payroll Expense	\$ 79,700.00	\$ 79,700.00	\$ -
Office Supplies and Expense	\$ 2,000.00	\$ 4,459.73	\$ (2,459.73)
Telephone	\$ 3,000.00	\$ 819.93	\$ 2,180.07
Internet Service	\$ -	\$ 2,230.07	\$ (2,230.07)
Printing and Copying	\$ 2,160.00	\$ 5,060.00	\$ (2,900.00)
Office Equipment	\$ -	\$ 3,499.98	\$ (3,499.98)
National Conference	\$ -	\$ 3,417.73	\$ (3,417.73)
Travel	\$ 2,310.00	\$ 331.09	\$ 1,978.91
Payroll Taxes (Fringe Benefit per Budget)	\$ 14,346.00	\$ 14,346.00	\$ -
Outreach Materials	\$ 3,300.00	\$ -	\$ 3,300.00
Total	\$ 118,646.00	\$ 117,473.42	\$ 1,172.58

Appendix VI

Rhode Island Attorney General Management's Response to Recommendations

State of Rhode Island and Providence Plantations



DEPARTMENT OF ATTORNEY GENERAL

150 South Main Street • Providence, RI 02903
(401)274-4400 - TDD (401) 453-0410

Peter F. Kilmartin, Attorney General

October 2, 2015

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

Dear Ms. Pascale:

On September 11, 2015 you forwarded to me the "Managements' Response Draft" for the "Center for Southeast Asians Vendor Compliance Audit Report." At that time, you further advised that pursuant to Section 35-7-3(b) of the Rhode Island General Laws, "Within twenty 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."

I appreciate the opportunity to respond to your agency's audit findings regarding the utilization of funds awarded to the Center for Southeast Asians by this office. As requested, my response is attached.

Should you have any questions or concerns regarding this response, please do not hesitate to contact this office.

Very truly yours,

A handwritten signature in black ink that reads "Peter F. Kilmartin". The signature is written in a cursive style.

Peter F. Kilmartin
Attorney General

On February 9, 2012, the attorneys general of 49 states and the District of Columbia (every state but Oklahoma), the United States Department of Justice, the United States Department of Housing and Urban Development and five banks and mortgage servicers (Bank of America, Citi, JPMorgan Chase, Ally/GMAC and Wells Fargo) reached agreement on the National Mortgage Settlement (NMS) to address mortgage loan servicing and foreclosure abuses. The National Mortgage Settlement created new servicing standards, provided for relief to distressed homeowners and provided funding for state and federal governments. The NMS was made formal and binding on April 5, 2012, when the United States District Court of the District of Columbia (Court) entered the consent judgments containing the Settlement terms.

The series of consent judgments authorized a number of remedial actions to assist in ameliorating the negative effects of the ongoing foreclosure crisis. One such remedial action was to set aside funds that could be accessed by the individual state attorneys general through a court approved escrow agent. Each individual state was allotted an amount predicated on the ratio foreclosure activities on a state by state basis. Rhode Island was granted \$8,500,755.00 of what is known as "Custodial Funds" to be used at the direction of the Attorney General to enhance law enforcement efforts to prevent and prosecute financial fraud, as well as unfair or deceptive acts. Additional permissible use purposes included but were not limited to supplementing the amounts paid to state homeowners under the Borrower Payment Fund, funding for housing counselors, state and local assistance hotlines, state and local foreclosure mediation programs, legal assistance, housing remediation and anti-blight projects, funding for training and staffing of financial fraud or consumer protection enforcement efforts, and civil penalties.

Although these programs are administered by the Attorney General, the audit inaccurately describes the funds distributed as "state funds." The funds distributed through the NMS were derived from the defendants in the National Mortgage Settlement litigation. They did not originate from federal or state taxpayers, nor were they appropriated to the Office of Attorney General. They were, to be clear, derived from the settlement of litigation, and their distribution was regulated by the terms of a federal court order.

Following entry of the consent judgments, the Attorney General had meetings with various state stakeholders who were working directly to deliver services in the foreclosure crisis arena. The Center for Southeast Asians was one of several entities that received funding through this program.

This contract compliance audit of the Center for Southeast Asians was conducted by the Bureau of Audits "to determine if the Center expensed funds in accordance with State contract requirements." The \$120,000 awarded to the CSEA through the National Mortgage Settlement, which is a subject of this audit, represents approximately 9% of payments to the Center by state agencies during the two fiscal years covered by this audit.

On September 3, 2013, a Memorandum of Agreement (MOA) was entered into between the Office of Attorney General and the Center for Southeast Asians setting forth the terms of this award, including the Center's obligation to provide quarterly statistical and program reports on activities funded through the agreement. On November 7, 2013, \$70,000 was provided to the Center, with an additional \$50,000 provided one year later.

To that end, while the MOA was a base line document that set the parameters the receiving entity and the Attorney General agreed upon, the Center subsequently requested adjustments to the budget which was submitted with the original grant application. As such, during the course of these programs certain line item expenditures were reallocated in order to meet CSEA's day to day objectives.

The Bureau of Audits examined in detail eleven specific transactions of the one hundred and eight covered by the award of funds provided to CSEA. Of those, four were considered "questionable" by the Bureau. The total value of those "questionable" transactions is \$1727.33, representing 1.4% of the \$120,000 total award.

Upon further review, we have determined that each of the budgetary reallocations noted by the Bureau of Audits were discussed and approved with the CSEA on September 17, 2014, prior to the expenditure of the funds.

Nevertheless, the Attorney General recognizes the need to distribute all funds awarded under the National Mortgage Settlement in a manner that is transparent and efficient, in order to ensure that the terms of the consent judgments are satisfied.

In order to achieve this goal, in addition to review of the required quarterly reports, the Attorney General has held numerous meetings, both individually with certain agencies and quarterly with all the recipients of funds issued as a result of the court ordered mortgage foreclosure settlement to ensure the funds were being used in the manner authorized by the national settlement.

In addition, we are exploring whether the terms of the settlement will allow this office to engage an independent auditor in order to further review all expenditures of NMS funds. We recognize that engagement of an auditor will necessarily reduce the amount of funds preliminarily awarded to various agencies, and therefore reduce funds available for client services.

With respect to Recommendation Three, the Attorney General will conduct a thorough examination of the funds allocated to the CSEA to ensure expenditures adhere to the intent and terms of the award.

With respect to Recommendation Four, the foregoing review will identify any expenditures deemed unallowable per the award terms, and the Attorney General will seek to recoup unallowable expenditures.

This office's Director of Administration and Finance, Christopher Cotta, is the person responsible for implementing the corrective actions noted. The estimated completion date for corrective actions is not later than April 1, 2016.