



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

April 27, 2016

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

Dear Ms. McDonald:

The Bureau of Audits has completed its contract compliance audit of the State of Rhode Island vendor, Child and Family Services of Newport County. The purpose of the engagement was to determine if Child and Family Services of Newport County 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.

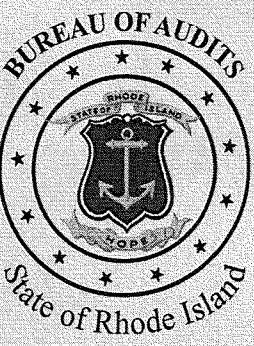
Rhode Island General Law §35-7-3(b), entitled *Audits performed by bureau of audits*, states that, “Within twenty (20) days following the date of issuance of the final audit report, the head of the department, agency or private entity audited shall respond in writing to each recommendation made in the final audit report.” Accordingly, management submitted its response to the audit findings and recommendations on April 26, 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 staff of Child and Family Services of Newport County, 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 of vendor oversight noted in our July 30, 2015, DCYF Procurement and Contract Management Controls audit report.

### Background Information

DCYF Partnership for an Integrated Family and Community System of Care was established by an agreement between Child and Family Services of Newport County (CFS) and the Department of Children, Youth and Families (DCYF). CFS was named a Network of Care Lead Agency, with a leadership role for providers, community stakeholders and children and families involved with DCYF to establish a strength-based and family-centered System of Care.

The Bureau of Audits recommends the Department of Children, Youth and Families:

- Negotiate with Child and Family Services of Newport County regarding overstated indirect costs of \$153,610.

## Contents

Introduction .....	4
Inadequate Infrastructure prior to Contract Execution led to a Lack of Accountability and Circumvention of Controls.....	4
Recommendations and Management Responses.....	5
Use State Accounting System Functionality and Properly Code Payments.....	5
Execute Contract Amendments Timely.....	6
Address Overstated Indirect Expenses .....	7
Objective and Scope.....	8
Methodology.....	8
DCYF Cover Letter to Responses.....	A-1

## 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, *Department of Children, Youth and Families Procurement and Contract Management Controls* audit report. This vendor compliance audit report addresses control and compliance issues noted between the Department of Children Youth and Families (DCYF) and Child and Family Services of Newport County (CFS). The Bureau discussed its findings and recommendations with DCYF and CFS and considered their comments in preparation of this report.

DCYF established the Partnership for Family and Community Integrated System of Care – Networks of Care (the Network). The intention of the Network was to provide a formal collaborative structure for joint planning across providers and categorical systems, including child welfare, behavioral health, juvenile justice and education. During July 2013, an agreement was signed between DCYF and CFS naming CFS a Network of Care Lead Agency. CFS was granted a leadership role with providers, community stakeholders and children and families involved with DCYF to establish a strength-based and family-centered System of Care.

## Inadequate Infrastructure prior to Contract Execution led to a Lack of Accountability and Circumvention of Controls

Prior to the execution of the lead network contracts, DCYF did not establish an adequate infrastructure to handle the services and reporting requirements as mandated in the contract agreement. Policies and procedures were not established to guide the working relationship between DCYF and the lead network providers. An annual update and approval of the contract budgets did not occur, and unilateral decisions were made without regard for the financial impact or the necessity for contract amendment. The contract allowed the lead networks to operate as the oversight administrator and a direct service provider.

As pressure mounted to deliver services, it created an atmosphere of urgency to service the children, whereby, administrative controls were circumvented by both parties. These actions led to the failure to document contractual changes. Total general revenue payments from DCYF to CFS were:

Fiscal Year	Total Payments Per State Records less Repayments from CFS
2013	\$ 36,487,682.75
2014	\$ 38,695,034.36
2015	\$ 37,728,679.47

As discussed in the Bureau's issued July 2015 audit report, standard operating procedures for the procurement of contracts and approval of expenditures were lacking, as well as a lack of procedures for fiscal and program monitoring. These issues were reiterated during this vendor audit; and as a result of a lack of monitoring, DCYF failed to identify:

- Need for contractual amendments
- Sufficient supporting documentation for financial transactions
- Compliance efforts with the cost allocation plan

DCYF has taken corrective action prior to the issuance of this audit report. The fiscal year 2016 lead networks contract extensions were documented, executed by all parties, included budgetary constraints and followed the Division of Purchases rules and regulations.

## Recommendations and Management Responses

### Use State Accounting System Functionality and Properly Code Payments

During fiscal year 2013, the Legislature granted additional funding to CFS; and during the entire audit period, five executed memorandums of agreement<sup>1</sup> were provided as detailed in the chart below. We found no other evidentiary documentation supporting contract value or payment methodology with CFS. A summary of the memorandums of agreement and changing contract value follow.

Fiscal Year 2013	\$ Increase	Contract Value
Orig contract FY 13		\$ 35,690,000.00
FY 2013 leg grant	\$ 596,630.00	<b>\$ 36,286,630.00</b>
Fiscal Year 2014	\$ Increase	Contract Value
Orig contract FY 14		\$ 35,690,000.00
MOA 1	\$ 1,414,662.00	\$ 37,104,662.00
MOA 2 *	\$ -	\$ 37,104,662.00
MOA 3 *	\$ -	\$ 37,104,662.00
MOA 4 *	\$ -	\$ 37,104,662.00
MOA 5	\$ 541,900.00	<b>\$ 37,646,562.00</b>
* These documents have no fiscal impact to contract; increase to days allowed for federal reimbursement.		

<sup>1</sup> Refer to the previous audit report entitled "Limited Scope Audit of the Department of Children, Youth and Families' Procurement and Contract Management Controls in Place During Fiscal Year 2015," dated July 2015 for recommendations regarding Division of Purchases approval.

Although MOA 1 was silent as to the use of additional awarded funds, MOA 5 earmarked the funds for out-of-state residential programs. As noted in the *Inadequate Infrastructure prior to Contract Execution led to a Lack of Accountability and Circumvention of Controls* section, the total payments to CFS do not match the chart above. Because the payments were not properly coded in the State accounting system by DCYF staff, we are unable to determine which payments were for lead network services and which payments were for services provided.

**Recommendation:**

- 1.) Properly code payment activity to each vendor in the state accounting system.

**Management's Response:** DCYF assumed all administrative functions from the two lead network agencies on April 1, 2016. In anticipation, DCYF developed service delivery confirmation procedures to ensure that contractors comply with contract terms and provide all deliverables prior to payment. The contract management division works closely with the newly-created central referral unit staff to coordinate and perform reconciliation procedures to verify satisfactory delivery of service. DCYF has improved coding within the State Automated Child Welfare System (SACWIS) and accurate entering of service authorizations into those windows. A payment interface is currently under development to ensure SACWIS and the state accounting system are formally linked for proper payment activity.

In addition, DCYF has also revised its invoicing protocol both internally and externally to ensure that vendors provide the appropriate and necessary level of detail. This will ensure that the Department is able to properly code payment activity.

**Responsible Party:** CFO/SACWIS Information Technology Manager

**Anticipated Completion Date:** Completion of the interface between SACWIS and state accounting system is anticipated on June 30, 2016.

**Execute Contract Amendments Timely**

During fiscal year 2015, payment methodology was changed to a cost-reimbursement basis. We did not find contractual amendments or written evidence to support this change in methodology; however, DCYF and CFS both represented that this was the agreed upon method of payment. Without written documentation, we are unable to determine if there was a meeting of the minds relative to the contractual limits and indirect costs allowed.

**Recommendation:**

- 2.) Conform to Division of Purchases rules and regulations and execute contractual amendments when changes are made to original terms.

**Management's Response:** DCYF formed a contract management division last year to tighten its controls of the state's procurement process and contractual relationships within the Department in large part due to the functional analysis of the Department. All changes to the original terms of contracts are processed

through the contract amendment and revised purchase order protocol of the Division of Purchases under the advisement and control of the contract management division.

DCYF has already developed and recently began piloting active contract management tools and resources to ensure proper monitoring and stronger financial controls for contracts with the Department.

**Responsible Party:** Associate Director, Contracts and Compliance

**Anticipated Completion Date:** Complete

#### Address Overstated Indirect Expenses

The parties agreed to a budget<sup>2</sup> that allows \$689,630 be paid to CFS for its Indirect Costs for each of the contract years. This amount is less than the contractual 14% cap and therefore consistent with contract language for the indirect costs for each fiscal year. However, the actual payments for indirect costs were as follows:

Fiscal Year	Amount Paid for Indirect Costs	Contractual Budget Amount for Indirect Costs	Variance
2013	710,500	689,630	20,870
2014	756,000	689,630	66,370
2015	756,000	689,630	66,370

The contract does not address carry forwards of budgeted amounts from one year to the next. Therefore, indirect costs are calculated independently each year.

#### **Recommendation:**

- 3.) Negotiate with CFS to recover the variance.

**Management's Response:** DCYF will work with CFS to recover the variance in the paid indirect costs of \$153,610 and any carry forward of budgeted amounts from prior fiscal years.

**Responsible Party:** Associate Director, Contracts and Compliance and CFO

**Anticipated Completion Date:** June 1, 2016

---

<sup>2</sup> This budget was agreed to in the original contract between DCYF and CFS.

## Objective and Scope

The Bureau of Audits conducted a limited scope audit of DCYF controls over the Network of Care Lead Agency – CFS. The purpose of this engagement was to determine if CFS was complying with the contractual agreement. The scope of this audit did not include the delivery and appropriateness of services provided by CFS.

## Methodology

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

- Interviewed CFS financial and program staff
- Examined agreements between DCYF and CFS
- Reviewed reimbursements made by DCYF to CFS
- Tested sample of expenses and payroll for compliance with agreement stipulations and adequate supporting documentation

The Bureau used an external audit firm, LGC&D LLP for the performance of this audit. LGC&D performed the detailed audit work and was selected using a competitive bidding process.



## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Rhode Island Executive Office of Health and Human Services  
74 West Road, Hazard Building, Cranston, RI 02920  
phone: 401.462.5274 fax: 401.462.3677

April 26, 2016

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

Dear Ms. Pascale:

On behalf of Governor Gina M. Raimondo and Health and Human Services Secretary Elizabeth Roberts, I extend my sincere thanks to you and your team for your thorough contract compliance audit with Child and Family Services of Newport County. Our concerns over the contractual and financial status at the Department of Children, Youth and Families (DCYF) required action to correct issues that have persisted for years. I am committed to resolve them as quickly as we can, the children and families of our state will be better served.

I concur with all of the Bureau of Audits findings in this report. In response to your audit report, please find DCYF management responses. These responses will align with your recommendations to ensure coding payment activity and conforming with state procurement requirements.

Thank you for your efforts.

Sincerely,

Jamia R. McDonald  
Chief Strategy Officer

