State of Rhode Island and Providence Plantations

Department of Administration
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April 28, 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, Family Service of Rhode Island (FSRI). The purpose of the engagement was to determine if FSRI 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 FSRI 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

The Department of Children, Youth and Families (DCYF) Partnership for an Integrated Family and Community System of Care was established by an agreement between Family Service of Rhode Island (FSRI) and DCYF. FSRI 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:

- Properly code payment activity to each vendor in the State Accounting System.
- Conform to Division of Purchases rules and regulations and execute contractual amendments when changes are made to original terms.
- Negotiate with FSRI regarding the $127,654 indirect cost variance.
- Establish a procedure to approve and monitor the allocation and use of flex funds.

Contents

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 audit report addresses control and compliance issues noted between the Department of Children, Youth and Families (DCYF) and Family Service of Rhode Island (FSRI). The Bureau discussed its findings and recommendations with DCYF and FSRI 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 FSRI naming FSRI a Network of Care Lead Agency. FSRI 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. The contract allowed the lead networks to operate as the oversight administrator and a direct service provider.

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. 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 or properly code payments which resulted in the inability to hold parties accountable. We calculated total DCYF payments to FSRI per the State accounting system. Total payments[1] to FSRI from general revenue funds were:

Fiscal Year	Total Payments Per State Records
2013	$38,605,776.82
2014	$ 42,185,090.78
2015	$ 43,951,150.24

[1] Total payments from DCYF to FSRI includes lead network and other service payments. Refer to this report section titled *Use State Accounting System Functionality and Properly Code Payment* for further discussion.

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
- Complete service documentation on file at FSRI

The discovery of these control weaknesses reiterates the recommendations made in the July 2015 audit report referenced above. DCYF has taken corrective action prior to the issuance of this audit report. The fiscal year 2016 lead networks contract extensions are documented, executed by all parties and include budgetary constraints.

Recommendations and Management Responses

Use State Accounting System Functionality and Properly Code Payments

During fiscal year 2013, the Legislature granted additional funding to FSRI; and during the entire audit period, five executed memorandums of agreement[2] were provided as detailed in the chart below. We found no other evidentiary documentation supporting contract value or payment methodology with FSRI. 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	$ 1,803,370.00	**$ 37,493,370.00**

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	$ 1,465,138.00	**$ 38,569,800.00**

* These documents have no fiscal impact to contract; increase to days allowed for federal reimbursement.

[2] 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.

Also during February 2014, the then-Deputy Administrator emailed FSRI to provide additional guidance related to MOA 1 allowing FSRI to use the funds to "offset additional expenses incurred." 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 FSRI 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 of this transition and to ensure payment activity for vendors now contracting directly with the Department, 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 in conjunction with management and budget staff, work closely with the newly-created central referral unit staff to coordinate and perform reconciliation procedures to verify satisfactory delivery of service and ensure payment accurately reflects services provided. 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

In 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 FSRI 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 programs and activities 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

As noted in the contract between DCYF and FSRI executed on June 20, 2012, the parties agreed to a budget[3] that allows $442,426.56 each contract year to be paid to FSRI for its Indirect Costs. This amount is less than the contractual 14% cap and therefore consistent with contract language for the indirect costs for each fiscal year. As noted in the *Fiscal 2015 Change to Payment Methodology without Contractual Amendment* section above, the memorandums of agreement discussed previously do not address a change to indirect costs allowed per the original contract.

The chart below summarizes the amounts allocated toward indirect costs.

Fiscal Year	Amount Paid for Indirect Costs (included in total network payments)	Contractual Budget Amount for Indirect Costs	Variance
2013	$310,815.00	$442,426.56	($131,611.56)
2014	$506,254.00	$ 442,426.56	$63,827.44
2015	$506,254.00	$ 442,426.56	$63,827.44

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

Recommendation:

3.) Negotiate with FSRI to determine if the variance should be recouped.

[3] This budget was agreed to in the original contract between DCYF and FSRI.

Management's Response: DCYF will work with FSRI to recover the variance in the paid indirect costs 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

Monitor Flex Fund Disbursements

As noted in the limited scope audit of the DCYF Procurement and Contract Management Controls referenced 2 above, there is insufficient support for flex funds. Flex funds are used to support and supplement goods and services that are outside of those established or mandated by DCYF or Family Court, and for which other reimbursement is not available. The two main purposes of flex funds are (1) emergency/basic needs or (2) non-reimbursable services and supports that are identified as necessary. These flex funds are restricted to $1,500 annually per family, and the agreement requires FSRI to monitor and report monthly about the specific amounts and services provided to each family through flex funding.

Although the exception rates and dollar amounts noted below are not material to the annual overall expenditure, without adequate controls over accounting, documentation and tracking, the risk of a waste of funds increases. We found at both DCYF and FSRI there were no controls to ensure payments were for allowable expenses within the cap limit. Our sampling found control weaknesses, whereby:

- FYs 14 and 15 each had two instances where an individual family exceeded the $1,500 maximum.
- Nine of 34 flex fund disbursements reviewed in FY 15 did not have supporting documentation.[4]
- Twelve of 21 flex fund disbursements in FY 14 did not included supporting documentation.
- Incorrect posting of costs to flex fund to general ledger.[5]

Recommendation:

4.) Establish a procedure to approve and monitor the allocation and use of flex funds.

Management's Response: The Department no longer allows vendors the ability to have flex funds now that the contracts with the lead network agencies ended on April 1, 2016. The contracts with the four Family Community Care Partnership entities continue to have flex funds, which are clearly designated on their invoices using the revised invoicing protocol.

Responsible Party: Associate Director, Contracts and Compliance and CFO

Anticipated Completion Date: Complete

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[4] Flex funds should be supported by an appropriate invoice/receipt.

[5] Local Education Authority (LEA) costs were incorrectly posted to the flex fund expenditures on FSRI general ledger.

Objective and Scope

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

Methodology

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

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

The Bureau used an external audit firm to supplement staff. Cayer Caccia, LLP, performed the detailed audit work and was selected using a competitive bidding process.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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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 Family Service of Rhode Island. 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