

State of Rhode Island and Providence Plantations

Department of Administration
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April 30, 2013

Michael Fine, M.D.
Director
Department of Health
Three Capitol Hill
Providence, RI 02903

Dear Doctor Fine:

The Bureau of Audits has completed its audit of the Department of Health revenues collected for licenses, fees, and services during the fiscal year ended June 30, 2012. Our audit was conducted in accordance with Rhode Island General Laws §35-7-3. The findings and recommendations included herein have been discussed with the Administrator, Financial Management, and we have considered all comments in the preparation of our report.

RIGL §35-7-3(b), entitled "Audits performed by the bureau of audits," states that, "Within twenty (20) days following the date of the 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 25, 2013, and such response is included in this report. Pursuant to RIGL §35-7-3(b), the Bureau may follow up on recommendations included in our reports within one year following the date of the issuance of the report.

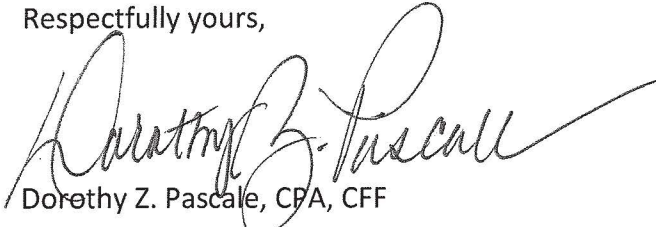
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We would like to express our sincere appreciation to the staff at the Department of Health for the cooperation and courtesy extended to the members of our team during the course of this audit.

Respectfully yours,



Dorothy Z. Pascale, CPA, CFF
Chief

c—Richard A. Licht, Director, Department of Administration
Kenneth Kirsch, Deputy Director, Department of Administration
Honorable Daniel DaPonte, Chairperson, Senate Committee on Finance
Honorable Helio Mello, Chairperson, House Finance Committee
Dennis Hoyle, CPA, Auditor General

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Audit Executive Summary

Why the Bureau

The Bureau of Audits is conducting a statewide review of departments and agencies that collect fees for licenses, services and other purposes in accordance with Section §35-7-3 of the Rhode Island General Laws. The purpose of this engagement is to determine if revenues at the Department of Health are being collected in accordance with applicable statutes, state procedures, fee schedules, and with adequate controls to ensure safeguarding of assets and accurate reporting.

Background Information

The Department of Health established by RIGL §23-1-1 operates programs that promote and protect the health and safety of the people of Rhode Island. Fees are charged and collected for regulation and licensing of health professionals, facilities and health plans, and for services provided by the Health Laboratories, Medical Examiner's Office and Office of Vital Records.

The Office of Management Services, in coordination with the divisions, accounts for the revenues generated from the department's various programs. Receipts are comprised of checks, credit cards, and cash and are received by mail, in person, or via the Internet.

What the Bureau Recommends

- Develop a formal method to track the progress of applications and payments prior to the entry into License 2000 that ensures consistency and accountability, and the timely deposit of funds.
- Formal transmittals should accompany applications and payment sent to the Data Entry Unit to improve controls over the transfer of receipts.
- The Office of Management Services should separate the functions of preparing the bank deposit and the recording of the receipt journal entry; or at a minimum, if that not is feasible, provide the Office of Vital Records with a copy of the deposit ticket.
- To improve controls over cash receipts, management should develop a procedure to periodically reconcile certificates issued to payments.
- Department of Health and the Office of Vital Records should review the number of employees that currently have access to cash, determine the minimum number of employees requiring access to cash to conduct business efficiently and effectively, and reduce access to cash as needed.

Objectives and Scope

The Bureau of Audits ("Bureau") conducted a review of the Department of Health (DOH) revenues collected for licenses, fees, and services during the fiscal year ended June 30, 2012. The purpose of this engagement was to determine if revenues are being collected in accordance with applicable statutes, state procedures, fee schedules, contracts, and with adequate controls to ensure safeguarding of assets and accurate reporting.

Methodology

As part of our audit work, we gained an understanding of and reviewed the procedures used by the Office of Management Services and the various DOH sections that receive and process payments.

To address our audit objective, we performed the following:

- Interviewed DOH Office of Management Services, Office of Vital Records, and other staff
- Reviewed applicable state and federal laws, regulations, and department policies and procedures governing the processing and recording of receipts
- Tested transactions from various revenue accounts pertaining to licenses, fees, and services

The Bureau discussed its findings and recommendations with management. We considered their comments in the preparation of this report. RIGL §35-7-3(b) entitled, "Audits performed by the bureau of audits," states in part that, "Within twenty (20) days following the date of the 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 25, 2013, and such response is included in this report.

Introduction

The Department of Health (DOH) was established by Rhode Island General Law §23-1-1 with the primary mission to prevent disease and to protect and promote the health and safety of the people of Rhode Island. Fees are charged and collected in accordance with the *Regulations Pertaining to the Fee Structure for Licensing, Laboratory and Administrative Services Provided by the Department of Health* for various services provided by sections within DOH, including the following:

- Environmental and Health Services regulates health professionals, facilities, and health plans, monitors the safety of public drinking water and beaches, and assures the safety of the food supply and of radiological equipment through licensing, certification, and other fees.
- Health Laboratories provide analytical and technical laboratory information to support disease surveillance, prevention, and control, environmental health protection, food safety, and emergency response activities, and collects fees for various laboratory services.

- The Medical Examiner’s Office screens deaths for public health significance and determines the cause and manner of deaths, and collects fees for certificates, reports, and other services.
- The Office of Vital Records provides certified copies of records, including birth, death, and marriage.

The Office of Management Services (OMS) is responsible for the accounting of the revenues generated by licenses, fees, and other services from DOH’s various programs in coordination with the respective sections. Receipts come to DOH through several types of payments including credit cards, checks, money orders, and cash, and are received by mail through the online license renewal system or in person. The OMS prepares all the receipt journal entries for DOH and also makes bank deposits for the Office of Vital Records (OVR) and receipts from a few other programs.

Recommendations and Management’s Responses

Lack of License Application Process Tracking

The DOH maintains an online system using a database (License 2000) for renewals of licenses and that also allows the public to see license status and other information for professionals and organizations that are licensed by the DOH. However, the initial license application is not part of this system and remains a paper-based system. The initial license application is submitted to the respective sections within DOH that are responsible for processing and approvals along with payment by check or money order.

There is no formal standardized recording or tracking of the applications and payments at the various DOH sections prior to entry into License 2000. If the application is complete, it is transferred along with the respective payment by the sections to the DOH Data Entry Unit where the information and payment amount are entered into the License 2000 database. At this process point, the application will have a status of approved or pending in the License 2000 database, depending on the applicable licensure approval process. The accompanying payment is deposited by the Data Entry Unit by scanning the check or money order into a bank direct deposit system. Corresponding documentation is sent to the OMS to record the receipt journal entry.

Also, there is no formal transmittal that accompanies the application and payment when sent to the Data Entry Unit. Adequate procedures for the collection of fees would include a controlled transfer of receipts from the various DOH sections to the Data Entry Unit that would ensure the safeguarding of funds and timely deposits in accordance with state laws and regulations.

Since there is no formal license application process tracking, prior to information being entered by the Data Entry Unit into License 2000, the following weaknesses in internal controls exist:

- DOH sections are using various methods to process and transfer applications and payments and cannot always identify where they are in the processing cycle
- Applications and checks may remain in sections for undetermined amounts of time and could lead to delays in processing and lost checks

- The Data Entry Unit processes what is received and has no knowledge as to the completeness of the information and payments since there is no tracking method

Recommendations

1. Develop a formal method to track the progress of applications and payments prior to the entry into License 2000 that ensures consistency and accountability, and the timely deposit of funds.
2. Formal transmittals should accompany applications and payment sent to the Data Entry Unit to improve controls over the transfer of receipts.

Management Responses

1. We agree with developing a formal method of tracking the application. This would require significant time and money to establish as the various division programs have regulatory requirements which require their input and review in order to issue the license. We are working with the Secretary of State to develop process, which will allow for tracking where the applicant is in the licensing process. Having all licensing categories together in one location would help to track the application. These changes will require changes to our software and will require additional funding to accomplish.
2. We agree with this finding and will work to develop this process.

Cash Deposit Controls/Lack of Segregation of Duties

The OMS makes the bank deposits and receipt journal entries weekly for cash and checks transmitted approximately twice per week from the OVR and checks for a few other accounts. For OVR, OMS counts and signs a receipt of the funds and provides OVR with a copy of the signed receipt to document the transfer. The accountant at OMS prepares the deposits and also prepares the receipt journal entry. There is no communication between the accountant at OMS (the depositor) and OVR regarding deposit details, i.e., when the deposit was made and for how much. OVR cannot be certain that the funds transferred to OMS agrees with the amount deposited, since they neither receive a copy of the bank deposit ticket, nor do they verify the deposit independently. Controls are weakened and there is an increased risk of misappropriation due to this lack of segregation of duties and communication, and no reconciliation.

Recommendations

3. The OMS should separate the functions of preparing the bank deposit and the recording of the receipt journal entry; or at a minimum, if that not is feasible, provide the OVR with a copy of the deposit ticket.

4. OVR should reconcile amounts transferred to OMS to deposits tickets or directly to the appropriate RIFANS receipt account.

Management Responses

3. We presently depend on the RIFANS system detail showing the deposit amounts.
4. We agree with this finding. In order to accomplish this recommendation, all transactions would need to be processed daily with any returned checks being identified by treasury daily and copies sent to us identifying the amount which was reduced from the daily deposit. This will require additional staff time for this procedure.

No Reconciliation of Payments to Certificates Issued

OVR issues certified copies of vital records including birth, death, and marriage certificates. Payments for certified copies may be by cash, check, or money order at the counter, and by check or money order through a mail request. When a person completes and submits a request for a certificate, an OVR employee reviews the request, and, if complete, approves the application; the certified document is subsequently issued. The applicant then pays the OVR cashier. Applications and corresponding payments received through the mail are handled in a similar method, except the check is processed on the same day received, but the certificate may be issued on a different day.

At the end of each day the employees do not match the number of daily certificates issued to the number of daily applications and fees received, because mailed applications may not be processed on that day. Further, no reconciliations of certificates issued to payments and authorizations recorded are performed for any period.

Adequate procedures for issuing certified documents would include reconciliation of certificates issued to payments and authorizations. Since there is no reconciliation being performed, there is a risk that certificates could be issued without payment or approval.

Recommendation

5. To improve controls over cash receipts, management should develop a procedure to periodically reconcile certificates issued to payments.

Management Response

5. We agree with this finding. This could be accomplished with updated automation and equipment to support his function. Unfortunately Rhode Island lacks a system for death and marriage records.

Need to Minimize Employee Access to Cash at the Office of Vital Records

OVR maintains a locked cash room, with a window cut out where the general public communicates and remits payments to the cashier. The cashier accepts cash, checks, or money orders as payments for certified copies of certificates at the window and from requests received through the mail. Payments are generally held for two days in the safe and then brought up to the OMS for deposit. Seven employees have access and use the cash register, and six employees have access to the safe which is also in the cash room.

Access to cash should be limited to a minimum number of employees required to efficiently and effectively conduct business operations. Not limiting the access to cash can increase the risk of loss or fraudulent activity.

Recommendation

6. DOH and OVR should review the number of employees that currently have access to cash in OVR and determine the minimum number of employees necessary to conduct business efficiently and effectively and reduce access if needed.

Management Response

6. We do use authorization codes for access to the register. We will review this process to see how we would be able to meet this recommendation.