



## OFFICE OF INTERNAL AUDIT

One Capitol Hill  
Providence, RI 02908-5890

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February 2, 2021

Mr. Jeremy Licht  
Director, RI Pandemic Recovery Office  
One Capitol Hill  
Providence, RI 02908

Dear Mr. Licht,

The Office of Internal Audit (OIA) has completed the first phase of its compliance audit of the Hospital Assistance Partnership Program (HAPP). The audit was conducted in conformance with the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing and by the authority given to the unit as stated in Rhode Island General Laws (RIGL) §35-7.1-2(a) – Establishment of office of internal audit. The recommendation included herein has been discussed with members of management, and we considered their comment in the preparation of this report.

RIGL §35-7.1-10 (d), entitled Annual and interim reports, states that, “Within twenty (20) calendar days following the date of issuance of the management response copy of the draft audit report, the head of the department, agency, public body or private entity audited shall respond in writing to each recommendation made in the audit report.” Accordingly, management of the HAPP subrecipients submitted their response to the audit findings and recommendations on February 2, 2021 and such response is included in this report. Pursuant to this statute, the Office 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 HAPP subrecipients for the cooperation and courtesy extended to the members of our team during this audit.

Respectfully yours,

Mike Sprague, CIA  
Deputy Chief

c- Jonathan Womer, Director, Office of Management and Budget  
Dacia Reed, Deputy Chief of Staff, Office of the Governor

# Audit Executive Summary

## Why the Office of Internal Audit Did This Review

The purpose of this engagement was to determine if the subrecipients of the Hospital Assistance Partnership Program (HAPP) properly complied with certain requirements of their HAPP subaward agreement with the State of Rhode Island. Specifically, the Office of Internal Audit determined if the subrecipients complied with the requirements related to employee retention and segregation of award obligations and expenditures as noted in the subrecipient agreement. Additionally, it was determined if the subrecipients accurately reported their cash flow information submitted with their HAPP application and if the disbursements to the hospitals were accurately calculated.

## Background Information

The COVID-19 pandemic continues to profoundly impact hospitals in the State of Rhode Island. Beginning in March 2020, the additional resources needed to combat the virus and the substantial reduction in utilization for non-COVID services resulted in significant revenue loss and unexpected cost increases for the hospitals.

The Coronavirus Aid, Relief, and Economic Security Act of 2020 passed by U.S. Congress established the Coronavirus Relief Fund (CRF) which designated aid for state governments to support COVID-19 efforts. Through the CRF, \$1.25B was provided to the State of Rhode Island. A portion of that funding was used to provide additional financial assistance for hospitals in Rhode Island through the establishment of a partnership program, called the Hospital Assistance Partnership Program. Six subrecipients were awarded funding from HAPP.

## To Strengthen Controls, the Office of Internal Audit recommends:

- South County Hospital comply with the requirement to segregate expenditures of HAPP & CRF funds in financial system records.

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## Introduction

The COVID-19 pandemic continues to profoundly impact hospitals in the State of Rhode Island. Beginning in March 2020, the additional resources needed to combat the virus and the substantial reduction in utilization for non-COVID services resulted in significant revenue loss and unexpected cost increases for the hospitals.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 passed by U.S. Congress established the Coronavirus Relief Fund (CRF) which designated aid for state governments to support COVID-19 efforts. Through the CRF, \$1.25B was provided to the State of Rhode Island. A portion of that funding was used to provide additional financial assistance for hospitals in Rhode Island through the establishment of a partnership program, called the Hospital Assistance Partnership Program (HAPP). To participate in the program, an organization was required to submit an application, report actual cash flow and service metrics for the period January through March 2020, and to report projected data through the end of August 2020. This information was utilized to calculate the amount of funding awarded to each subrecipient. Six subrecipients were awarded funding from the first phase of HAPP:

Name of Subrecipient	HAPP Phase 1 Award Amount
Emma Pendleton Bradley Hospital	\$3,637,531
Prospect CharterCare, LLC	\$15,782,138
Care New England Health System	\$39,165,931
Landmark Medical Center	\$6,118,938
The Miriam Hospital	\$21,011,845
South County Hospital	\$9,647,705
<b>Total Awarded in HAPP Phase 1</b>	<b>\$95,364,088</b>

## Summary of Audit Results

*The letters sent to each of the subrecipient hospitals are included with this report. South County Hospital was the only subrecipient required to submit a response, as the other subrecipients did not have a finding.*

### South County Hospital did not segregate HAPP & CRF funds in the financial system

Section 4.6(a) of the HAPP sub-award requires South County Hospital to:

*... segregate obligations and expenditures of CRF it receives from this program with other CRF funding and/or other funding it receives from the State, federal and/or other sources.*

While South County Hospital has separate revenue accounts established in the financial system for HAPP & CRF funds, there are no separate expense accounts established to segregate and record the HAPP & CRF expenditures. Upon further inquiry, it was determined that South County Hospital utilized a separate cost center to capture staff not working in their typical role due to COVID-19 activities. However, South County Hospital maintained all other costs in the cost center departments. For example, the increased staffing in the emergency room for PUI (Persons Under

Investigation) or COVID-19 positive patients remained a cost overrun in that department associated with operating during COVID-19. Although there was an informal tracking system in place, there were no separate accounts or costs centers utilized for supplies and equipment for the preparation and response to COVID-19. Further, while the hospital does have certain procedures drafted regarding HAPP & CRF funds, it does not account for the procedures required to segregate the expenditures made from these sources.

There is an increased risk that HAPP & CRF funding will not be used in accordance with HAPP & CRF requirements. Due to this non-compliance with the terms of its HAPP agreement, South County Hospital is at risk of subjecting their organization and the State to potential fines and penalties.

*Recommendation to South County Hospital:*

1. Establish accounts to record expenditures for HAPP & CRF.

*Management's Response:* We are in agreement with the recommendation. We have established accounts in our trial balance to segregate and record our HAPP & CRF expenditures.

*Responsible Party:* Marcia Polhemus, Controller.

*Anticipated Completion Date:* Completed 2/2/2021.

### Objective and Scope

The Office of Internal Audit (OIA) completed the first phase<sup>1</sup> of its compliance audit of the Hospital Assistance Partnership Program (HAPP). The purpose of this engagement was to determine if each of the HAPP subrecipients properly complied with certain requirements of their HAPP subaward agreement with the State of Rhode Island. Specifically, the following requirements of the HAPP subaward were reviewed for compliance:

HAPP Award Reference	Requirement
4.1	"Subrecipient Entity certifies, represents, and warrants that all information provided as part of its application for the program... are true, accurate and complete, to the best of its knowledge." (Note: Testing was performed on the financial information sheet submitted as part of the HAPP application.)
4.6(a)	"Subrecipient Entity agrees that it shall segregate obligations and expenditures of CRF it receives from this program with other CRF funding and/or

<sup>1</sup> The results of the second phase of the audit of the HAPP will be issued in a separate report.

	other funding it receives from the State, federal and/or other sources."
5.10	"Subrecipient Entity shall maintain the aggregate number of employees employed in Rhode Island at or above its employment levels as of June 8, 2020 to the extent practicable, and in no event shall reduce the aggregate number of employees employed in Rhode Island by more than 10% from the levels on June 8, 2020, through August 31, 2020."

The audit period was January 1, 2020 through September 30, 2020.

### Methodology

As part of our audit, we gained an understanding of the Hospital Assistance Partnership Program. To address our audit objective, we performed the following:

- Reviewed the HAPP subaward agreements for each of the subrecipients.
- Reviewed the HAPP applications and other submitted supporting documentation from each of the subrecipients.
- Requested financial statements, policies and procedures, and employee listings from each of the subrecipients.

The results of this audit are communicated within this report.



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One Capitol Hill  
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January 13, 2021

Thomas Breen, Vice President and Chief Financial Officer  
& Marcia Polhemus, Controller  
South County Hospital  
100 Kenyon Avenue  
Wakefield, RI 02879

Via email

Dear Mr. Breen & Ms. Polhemus,

Thank you again for your cooperation during this audit. As discussed in the engagement letter, the objective of the first phase of this audit was to determine if your organization complied with requirements related to employee retention, application submission, and fund segregation. Specifically, the following requirements of the HAPP subaward were reviewed for compliance:

HAPP Award Reference	Requirement
4.1	"Subrecipient Entity certifies, represents, and warrants that all information provided as part of its application for the program... are true, accurate and complete, to the best of its knowledge." (Note: Testing was performed on the financial information sheet submitted as part of the HAPP application.)
4.6(a)	"Subrecipient Entity agrees that it shall segregate obligations and expenditures of CRF it receives from this program with other CRF funding and/or other funding it receives from the State, federal and/or other sources."
5.10	"Subrecipient Entity shall maintain the aggregate number of employees employed in Rhode Island at or above its employment levels as of June 8, 2020 to the extent practicable, and in no event shall reduce the aggregate number of employees employed in Rhode Island by more than 10% from the levels on June 8, 2020, through August 31, 2020."

The OIA noted that South County Hospital did not comply with section 4.6(a) of the award. The following issue has been drafted:



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Section 4.6(a) of the HAPP sub-award requires South County Hospital to "segregate obligations and expenditures of CRF it receives from this program with other CRF funding and/or other funding it receives from the State, federal and/or other sources".

While South County Hospital has separate revenue accounts established for HAPP & CRF funds, there are no separate accounts established to segregate and record the corresponding expenditures. Upon further inquiry, it was determined that South County Hospital utilized a separate cost center to capture staff not working in their typical role due to COVID-19. However, South County Hospital maintained all other costs in the departments. For example, the increased staffing in the emergency room for PUI (Persons Under Investigation) or COVID-19 positive patients remained a cost overrun in that department associated with operating during COVID-19. Although there was an informal tracking system in place, there were no separate accounts or costs centers utilized for supplies and equipment for the preparation and response to COVID-19. Further, while the hospital does have certain procedures drafted regarding HAPP & CRF funds, it does not account for the procedures required to segregate the expenditures made from these sources.

There is an increased risk that HAPP & CRF funding will not be used in accordance with HAPP & CRF requirements. Due to this non-compliance with the terms of its HAPP agreement, South County Hospital is at risk of subjecting their organization and the State to potential fines and penalties.

*Recommendation:*

- 1) Establish accounts to record expenditures for HAPP & CRF.

*Management's Response:*

*Responsible Party:*

*Anticipated Completion Date:*

We kindly request that you review this draft finding. If there are no questions or concerns, please enter your response and corrective action plan next to "Management's Response" and complete the responsible party and anticipated completion date. Please return your responses by February 2, 2021.

Thank you,

Mike Sprague, CIA  
Deputy Chief





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January 13, 2021

Mamie Wakefield, Executive Vice President and Chief Financial Officer  
The Miriam Hospital  
167 Point Street  
Providence, RI 02903

Via email

Dear Ms. Wakefield,

Thank you again for your cooperation during this audit. As discussed in the engagement letter, the objective of the first phase of this audit was to determine if your organization complied with requirements related to employee retention, application submission, and fund segregation. Specifically, the following requirements of the HAPP subaward were reviewed for compliance:

HAPP Award Reference	Requirement
4.1	"Subrecipient Entity certifies, represents, and warrants that all information provided as part of its application for the program... are true, accurate and complete, to the best of its knowledge." (Note: Testing was performed on the financial information sheet submitted as part of the HAPP application.)
4.6(a)	"Subrecipient Entity agrees that it shall segregate obligations and expenditures of CRF it receives from this program with other CRF funding and/or other funding it receives from the State, federal and/or other sources."
5.10	"Subrecipient Entity shall maintain the aggregate number of employees employed in Rhode Island at or above its employment levels as of June 8, 2020 to the extent practicable, and in no event shall reduce the aggregate number of employees employed in Rhode Island by more than 10% from the levels on June 8, 2020, through August 31, 2020."

The OIA has noted that Miriam Hospital has complied with the above award requirements. A formal report will be issued at a later date with these results. Please let me know if you have any questions or concerns.



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Thank you,

Mike Sprague, CIA  
Deputy Chief



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January 13, 2021

Scott Brown, Chief Financial Officer  
Landmark Medical Center  
115 Cass Avenue  
Woonsocket, RI 02895

Via email

Dear Mr. Brown,

Thank you again for your cooperation during this audit. As discussed in the engagement letter, the objective of the first phase of this audit was to determine if your organization complied with requirements related to employee retention, application submission, and fund segregation. Specifically, the following requirements of the HAPP subaward were reviewed for compliance:

HAPP Award Reference	Requirement
4.1	"Subrecipient Entity certifies, represents, and warrants that all information provided as part of its application for the program... are true, accurate and complete, to the best of its knowledge." (Note: Testing was performed on the financial information sheet submitted as part of the HAPP application.)
4.6(a)	"Subrecipient Entity agrees that it shall segregate obligations and expenditures of CRF it receives from this program with other CRF funding and/or other funding it receives from the State, federal and/or other sources."
5.10	"Subrecipient Entity shall maintain the aggregate number of employees employed in Rhode Island at or above its employment levels as of June 8, 2020 to the extent practicable, and in no event shall reduce the aggregate number of employees employed in Rhode Island by more than 10% from the levels on June 8, 2020, through August 31, 2020."

The OIA has noted that Landmark Medical Center has complied with the above award requirements. A formal report will be issued at a later date with these results. Please let me know if you have any questions or concerns.



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Thank you,

Mike Sprague, CIA  
Deputy Chief



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January 13, 2021

Joseph Iannoni, Executive Vice President and Chief Financial Officer  
Care New England Health System  
45 Willard Avenue  
Providence, RI 02905

Via email

Dear Mr. Iannoni,

Thank you again for your cooperation during this audit. As discussed in the engagement letter, the objective of the first phase of this audit was to determine if your organization complied with requirements related to employee retention, application submission, and fund segregation. Specifically, the following requirements of the HAPP subaward were reviewed for compliance:

HAPP Award Reference	Requirement
4.1	"Subrecipient Entity certifies, represents, and warrants that all information provided as part of its application for the program... are true, accurate and complete, to the best of its knowledge." (Note: Testing was performed on the financial information sheet submitted as part of the HAPP application.)
4.6(a)	"Subrecipient Entity agrees that it shall segregate obligations and expenditures of CRF it receives from this program with other CRF funding and/or other funding it receives from the State, federal and/or other sources."
5.10	"Subrecipient Entity shall maintain the aggregate number of employees employed in Rhode Island at or above its employment levels as of June 8, 2020 to the extent practicable, and in no event shall reduce the aggregate number of employees employed in Rhode Island by more than 10% from the levels on June 8, 2020, through August 31, 2020."

The OIA has noted that Care New England Health System has complied with the above award requirements. A formal report will be issued at a later date with these results. Please let me know if you have any questions or concerns.



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Thank you,

Mike Sprague, CIA  
Deputy Chief



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January 13, 2021

Stephen Almonte, Director, Finance  
Emma Pendleton Bradley Hospital  
1011 Veterans Memorial Parkway  
East Providence, RI 02915

Via email

Dear Mr. Almonte,

Thank you again for your cooperation during this audit. As discussed in the engagement letter, the objective of the first phase of this audit was to determine if your organization complied with requirements related to employee retention, application submission, and fund segregation. Specifically, the following requirements of the HAPP subaward were reviewed for compliance:

HAPP Award Reference	Requirement
4.1	"Subrecipient Entity certifies, represents, and warrants that all information provided as part of its application for the program... are true, accurate and complete, to the best of its knowledge." (Note: Testing was performed on the financial information sheet submitted as part of the HAPP application.)
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The OIA has noted that Emma Pendleton Bradley Hospital has complied with the above award requirements. A formal report will be issued at a later date with these results. Please let me know if you have any questions or concerns.



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Thank you,

Mike Sprague, CIA  
Deputy Chief





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January 13, 2021

David Ragosta, Chief Financial Officer  
Prospect CharterCare  
825 Chalkstone Avenue  
Providence, RI 02908

Via email

Dear Mr. Ragosta,

Thank you again for your cooperation during this audit. As discussed in the engagement letter, the objective of the first phase of this audit was to determine if your organization complied with requirements related to employee retention, application submission, and fund segregation. Specifically, the following requirements of the HAPP subaward were reviewed for compliance:

HAPP Award Reference	Requirement
4.1	"Subrecipient Entity certifies, represents, and warrants that all information provided as part of its application for the program... are true, accurate and complete, to the best of its knowledge." (Note: Testing was performed on the financial information sheet submitted as part of the HAPP application.)
4.6(a)	"Subrecipient Entity agrees that it shall segregate obligations and expenditures of CRF it receives from this program with other CRF funding and/or other funding it receives from the State, federal and/or other sources."
5.10	"Subrecipient Entity shall maintain the aggregate number of employees employed in Rhode Island at or above its employment levels as of June 8, 2020 to the extent practicable, and in no event shall reduce the aggregate number of employees employed in Rhode Island by more than 10% from the levels on June 8, 2020, through August 31, 2020."

The OIA has noted that Prospect CharterCare has complied with the above award requirements. A formal report will be issued at a later date with these results. Please let me know if you have any questions or concerns.



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Thank you,

Mike Sprague, CIA  
Deputy Chief