
PEOPLE'S ADVOCACY COUNCIL
Review of Community Service Grants

**Administered by the Department of
Mental Health, Retardation and Hospitals**

FISCAL YEARS 2002 AND 2003

Ernest A. Almonte, CPA, CFE
Auditor General

State of Rhode Island and Providence Plantations
General Assembly
Office of the Auditor General



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JOINT COMMITTEE ON LEGISLATIVE SERVICES

SPEAKER William J. Murphy

Senator Joseph A. Montalbano
Senator Dennis L. Algiere
Representative Gordon D. Fox
Representative Robert A. Watson

We have completed a special review of certain payments made under a community service grant to the People's Advocacy Council administered by the Department of Mental Health, Retardation and Hospitals during fiscal years 2002 and 2003. Our report is included herein.

Sincerely,

Ernest A. Almonte, CPA, CFE
Auditor General

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EXECUTIVE SUMMARY

PEOPLE'S ADVOCACY COUNCIL - REVIEW OF COMMUNITY SERVICE GRANTS FISCAL YEARS 2002 AND 2003

We conducted a special review of certain payments made under a community service grant to the People's Advocacy Council during fiscal years 2002 and 2003. Our objective was to determine whether these payments were in accordance with the purposes of the grant, and were supported by appropriate documentation.

The People's Advocacy Council (PAC) was established in 1995 to provide an opportunity for persons with disabilities receiving services from the Rhode Island Department of Mental Health, Retardation and Hospitals (MHRH) to meet monthly with the Director of MHRH to advise the Director on pertinent issues, receive information from the Director regarding plans and policies of MHRH, and share information involving current developments of concern to disabled individuals.

The community service grant provided funding of \$26,700 annually in fiscal years 2002 and 2003 to be used to pay stipends of up to \$1,000 annually to Executive committee members to conduct various duties for the Council; design and develop informational materials, speaking programs, and leadership training programs; participate in conferences; and advocate on behalf of all MHRH clients. The PAC also was provided with office space without charge at MHRH headquarters in Cranston.

MHRH contracted with People in Partnerships, Inc. (PIP) to act as a fiscal conduit for the community service grant. The contract required PIP to fund the services provided by the PAC, and to submit monthly invoices and expenditure reports to MHRH for reimbursement. However, the contract did not require approval or authorization of individual expenditures by PIP. The head of the Office of Quality Assurance in the Division of Developmental Disabilities at MHRH was appointed by the Director to be the project coordinator. The project coordinator would initiate all disbursements from the grant.

In a May 2003 letter, the Executive Director of PIP informed the Director of MHRH of concerns expressed by PIP's independent auditor regarding the authority for disbursement of PAC funds, and the responsibility of PIP to determine whether requested expenditures were in accordance with the purposes of the grant. PIP questioned the propriety of two specific expenditures in a September 26, 2005 letter to the Acting Director of MHRH.

We found that one of these expenditures, a \$2,500 disbursement for production of a video and establishment of a savings account, resulted in questionable payment procedures and the lack of a final product. Documentation for nearly half of the second expenditure of \$1,000 in travel costs associated with a training conference in Chicago was either questionable or not properly supported.

EXECUTIVE SUMMARY

PEOPLE'S ADVOCACY COUNCIL - REVIEW OF COMMUNITY SERVICE GRANTS FISCAL YEARS 2002 AND 2003

In addition, we found that expenditures were made for two digital cameras but only one could be located at MHRH, stipends paid to Council members were excessive in some instances and not properly documented in others, two desktop computers were purchased for use by Council members when only one would seem to be necessary, and other miscellaneous expenditures were not properly explained or supported.

We believe these practices and procedures carry an unnecessarily high risk for fraud due to the absence of effective controls on the part of MHRH and the PIP. We question the decisions made by MHRH in utilizing an outside entity to act as a fiscal conduit, and believe that PIP should have determined its role far sooner than it did.

PEOPLE'S ADVOCACY COUNCIL
REVIEW OF COMMUNITY SERVICE GRANTS
FISCAL YEARS 2002 AND 2003

OBJECTIVES, SCOPE AND METHODOLOGY

We have reviewed certain payments made under a community service grant to the People's Advocacy Council during fiscal 2002 and 2003. During the course of our review, we conducted certain tests and interviewed appropriate individuals as we considered necessary.

Our objective was to determine whether these payments were made in accordance with the purposes of the community service grants, and were supported by appropriate documentation.

This review does not constitute an audit in accordance with *Government Auditing Standards*. Had we conducted such an audit, other matters might have come to our attention that we would have reported as required.

BACKGROUND

The People's Advocacy Council (PAC) was established in 1995 to provide an opportunity for persons with disabilities receiving services from the Rhode Island Department of Mental Health, Retardation and Hospitals (MHRH) to meet monthly with the Director of MHRH. These meetings would enable the members to advise the Director on pertinent issues, receive information from the Director regarding plans and policies of MHRH, and share information involving current developments of concern to disabled individuals.

Members of the Council testified periodically at the General Assembly, and eventually obtained funding through a community service grant. These funds were to be used to:

- Pay stipends of up to \$1,000 annually for each of the Executive Committee members to conduct business of the Council, attend Executive Committee and full Council meetings, and develop an annual work plan for the Council;
- Design various informational materials;
- Develop and implement a Speakers Bureau;
- Develop leadership training programs;
- Participate in conferences to increase the knowledge of Council members and staff advisors; and
- Advocate on behalf of all persons receiving services from MHRH.

The community service grant provided funding of \$26,700 annually in fiscal years 2002 and 2003. The PAC also was provided with office space without charge at MHRH headquarters in Cranston.

GRANT ADMINISTRATION

MHRH contracted with People in Partnerships, Inc. (PIP) to act as a fiscal conduit for the community service grant. PIP was chosen because it served the population groups represented on the Council (mental health, developmentally disabled, and substance abuse), and had a satisfactory track record with MHRH. The contract required PIP to fund the services provided by the PAC, and to submit monthly invoices and expenditure reports for reimbursement to MHRH. A final expenditure report no later than one month after the end of the fiscal year was to be submitted to MHRH, also. However, the contract did not require consideration of the propriety of individual expenditures by PIP. MHRH paid an administrative fee to PIP for these services.

The head of the Office of Quality Assurance in the Division of Developmental Disabilities at MHRH was appointed by the Director to be the project coordinator. The project coordinator would initiate all disbursements from the grant. Under the terms of its contract, PIP did not require documentation supporting disbursement requests from MHRH. The Executive Director of PIP stated to us that her agency's role was to disburse payments as directed by the project coordinator, and not to act as an approving authority.

In a May 2003 letter, the Executive Director of PIP informed the Director of MHRH of concerns expressed by their independent auditor regarding the authority for disbursement of PAC funds, and the responsibility of PIP to determine whether requested expenditures were in accordance with the purposes of the grant. We note that this occurred only a few weeks before the end of the second (and final) grant period. In response, the Director stated MHRH's expectation that PIP "would exercise the same internal accounting controls and oversight procedures as you would for any of your other funds and expenditures."

At the request of the interim director of MHRH in August 2003, the state Bureau of Audits conducted a review of the fiscal records supporting the contract between the Department and PIP for the fiscal year ended June 30, 2003. The review concluded that "the fiscal records required to be maintained for this contract for the period covered were inadequately maintained with little or no documentation," and "expenditure reports as well as contract compliance provisions were not adhered to."

PIP questioned the propriety of two specific expenditures in a September 26, 2005 letter to the Acting Director of MHRH. Our review of these and other expenditures is discussed in the following section.

REVIEW OF EXPENDITURES

\$2,500 Disbursement: Video Production and Establishment of Checking Account

The first expenditure concerns a check for \$2,500 issued on February 11, 2003 to the Chair of the PAC at the request of the project coordinator. Although the check request indicated the funds were intended “for deposit for social and planning sessions,” the funds were actually used for production of a video (“*No Place Like the PAC*”), which would demonstrate the activities and achievements of the Council, and to establish a bank account in the name of the PAC.

The \$2,500 check was cashed at a local bank in Cranston. The project coordinator took possession of \$2,000 in cash from the proceeds of the check. The remaining \$500 was used to establish a PAC checking account; the Chair and Vice-Chair of the PAC were the signatories. According to the MHRH project coordinator, the checking account was established to allow the PAC to become more self-sufficient. Information on the current status of this bank account has not been furnished to us.

The project coordinator stated that the \$2,000 provided to her was paid to a video production firm *in cash*. A purchase order from the video production firm dated February 17, 2003 indicated an estimated production cost of \$2,000, and the firm confirmed to us that it received a \$2,000 payment. However, documents we have reviewed indicate that the payment was not made until March 11, 2003, and the vendor informed us that payment was received *in the form of a check* from the MHRH project coordinator.

We are troubled by the inconsistencies in these accounts of the payment to the video firm. Either the payment was made in cash, which is completely unacceptable, or payment was not made until three weeks after the funds were made available, which raises the possibility of commingling of state and personal funds.

Subsequently, a new director was appointed at MHRH. She had concerns about the PAC, and felt she didn’t need an advisory group. The PAC was disbanded in August 2003 and the video remains unfinished. An MHRH official reviewed the status of the project with the video production company, but did not obtain a refund for any balance of the funds provided. We requested that the video product (even if only partially completed) be made available to us for inspection; MHRH has been unable to comply.

Given the questionable payment procedures and the absence of a final product, we believe this sequence of events carries with it significant potential for fraud. The end result is that \$2,000 of state funds was ostensibly used to produce a video that does not exist. MHRH should have been more aggressive in recouping funds from the video firm, or demanded an accounting from the firm for the funds that were provided. We were unable to reconcile the inconsistencies in the information regarding the payment for the video described above, but recommend that it be referred for additional investigation.

\$1,000 Cash Advance

The other questioned expenditure involves a check for \$1,000, drawn as a cash advance for three PAC members and two MHRH representatives attending a training program in Chicago in July 2002. Documentation purporting to support these expenditures was provided to us by the MHRH project coordinator. Documentation for one group dinner and various taxi fares appears acceptable. However, we consider the documentation for another group dinner to be inadequate, and the purchase of framed prints to be unrelated to the purposes of the travel. As a result, we consider \$495.80 in reported expenditures to be either unrelated to the purposes of the travel, or inadequately documented.

Purchase of Two Digital Cameras

Two digital cameras were purchased for a total cost of over \$600. The MHRH project coordinator informed us that one was used by a PAC member to take photographs for newsletters and videos, etc.; however, we were informed that this individual returned the camera to MHRH when the PAC was disbanded. According to the MHRH project coordinator, the other camera is being used by MHRH personnel for human rights education and community monitoring. We asked to have both cameras made available to us for verification purposes; the MHRH project coordinator could locate only one.

Council Member Stipends

Addendum #1 to the agreement between MHRH and PIP limits annual stipends to members of the Executive Committee of the PAC to \$1,000. However, payments significantly exceeding this amount were paid to the Chair, Vice-Chair and an at-large member of the PAC in fiscal 2003. In addition, payments totaling \$3,173.75 were paid to members of the PAC as "consumer stipends". The project coordinator at MHRH considered the agreement to be a guideline, and informed us that the Director of MHRH at the time was aware of these payments. We believe that excess payments to individuals should not have been provided without an amendment to the agreement, or a signed waiver from the Director of MHRH.

In December 2002, a check for \$1,500 was issued to an MHRH secretary in order to provide stipends of \$50 each to 30 PAC members. The check was cashed by the MHRH secretary and the funds provided to the MHRH project coordinator. A list of persons to whom these payments were to be made indicated 18 PAC members were to receive \$50 each, and 4 members were to receive \$150 each for "video"; there was no explanation for the additional payments.

There were no signed receipts or other evidence that these individuals received these payments. Paying stipends in cash without supporting documentation is an unacceptable practice.

Purchase of Desktop Computers

In February 2002, a check for \$2,600 was issued without supporting documentation as to its purpose. The check was payable to a retailer that principally deals in computer hardware and software. We were informed by the MHRH project coordinator that the payment was for a desktop computer to be used for training purposes by PAC members (a second desktop computer was also purchased for use by the PAC from another vendor). We were informed that MHRH personnel in the Division of Developmental Disabilities currently use one of these computers. Following our inquiries, another desktop computer was located in a closet at MHRH headquarters. This was identified to us as the other computer purchased with the \$2,600 in PAC funds.

Miscellaneous Expense Items

We noted that a check for \$204.35 was issued in May 2002 to a mail-order house without explanation or documentation as to the purpose of the expenditure. In addition, a check for \$496.17 was issued to the project coordinator in July 2002; supporting documentation for \$216.50 of this amount was the project coordinator's credit card statement. Finally, a check for \$1,188.34 payable to the MHRH project coordinator was issued on October 16, 2002; documentation consisted of various receipts totaling \$588.34. No explanation for the remaining \$600 was made available to us for our review.

SUMMARY AND RECOMMENDATIONS

We could not satisfy ourselves that these funds were expended for the purposes intended:

- \$2,000 was expended for production of a video that does not exist.
- \$1,000 was expended for travel-related costs, but nearly half of these costs were unrelated to the purposes of the travel or inadequately documented.
- Funds were used to purchase two digital cameras but only one could be located.
- Excessive stipends were paid to members of the PAC without documentation that these individuals actually received these funds.
- Two computers were purchased for use by members of the PAC when only one would seem to be necessary.

We believe these practices and procedures carry an unnecessarily high risk for fraud due to the absence of effective controls on the part of MHRH and the PIP.

We question the decisions made by MHRH regarding the administration of the grant, also. We believe it was unnecessary to utilize an outside entity (PIP) to act as a fiscal conduit; disbursements should have been made through the state's existing procedures.

We believe that PIP, as the fiscal conduit, should have determined its role far sooner than it did. If there were questions regarding the types of expenditures allowed under the grant, these should have been resolved at the outset of the two-year fiscal period, not at the end. In effect, PIP did not play a useful role in the administration of the grants. We note that the agreement between PIP and MHRH did not contain provisions governing how expenditures were to be approved or authorized. Allowing this to continue until the final months of the grant weakened control over expenditures.

RECOMMENDATIONS

1. Assign responsibility for fiscal administration of community service grants to MHRH fiscal personnel. Utilize the State's existing controls for all disbursements.
2. Ensure that future agreements with outside vendors contain provisions regarding how expenditures are to be approved or authorized.
3. Establish provisions to ensure that stipends do not exceed contract limits without amendments to the agreement or signed waivers from the Director of MHRH.
4. Establish requirements to prevent cash payments to individuals.
5. Establish appropriate control over equipment purchased with community service grants.
6. Revise procedures to ensure that appropriate supporting documentation is secured for all expenditures from community service grant funds.