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Office of Management and Budget  
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June 14, 2018

Ms. Nancy Maguire Heath  
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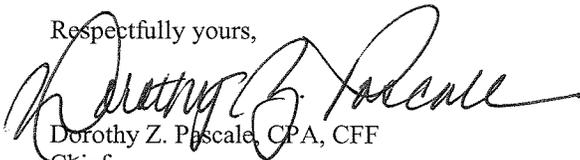
Dear Director Heath:

The Office of Internal Audit has completed its audit of the Rhode Island School for the Deaf. 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 accordance with the Rhode Island General Laws (RIGL) §35-7.1-1 – Establishment of office of internal audit. The recommendations included herein have been discussed with members of management, and we considered their comments 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 submitted its response to the audit findings and recommendations on June 14, 2018, 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 Rhode Island School for the Deaf 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—Jonathan Womer, Director, Office of Management and Budget  
Honorable William J. Conley, Jr., Chairperson, Senate Committee on Finance  
Honorable Marvin Abney, Chairperson, House Finance Committee

## AUDIT Executive Summary

### Why the OIA Did This Review

The purpose of this engagement is to determine if the financial management processes at the RI School for the Deaf (RISD) are operating efficiently and effectively and in accordance with applicable laws, rules, and regulations.

### Background Information

The mission of the Rhode Island School for the Deaf (RISD) is to improve outcomes for deaf and hard of hearing students, including those with additional disabilities. This is achieved by providing diagnostic and educational services for attending students as well as through a Hearing/Screening Center for students in public and private schools.

### To Strengthen Controls RISD Should:

Document and implement a formal methodology for calculating in-state tuition rates

Deposit the portion of out-of-state tuition revenues attributable to "additional services" into the restricted revenue account as required by state law.

Ensure receipts are deposited in accordance RI General Laws

Review lease agreements and implement additional terms to protect the school from legal liability

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## Introduction

The Rhode Island School for the Deaf (RISD) is a co-educational public special needs school for students in grades Pre-K through 12. It provides extensive and individualized services for deaf and hard of hearing children in both its school setting as well as through a number of community initiatives including: the Parent Infant Program, Preschool and Early Childhood, Speech and Occupational Therapy Services, Out-of-School Time activities, Academic and Career Exploration Partnerships, Transitional Services, and Audiology Center.

The primary purpose of RISD is to make the benefits of public education accessible to the Deaf and hard of hearing children in Rhode Island. The Board of Education, which is responsible for the educational and internal affairs of the school, appoints a Board of Trustees. Services through the school are open to children who are deaf or hard of hearing and thus require specialized services. Children are eligible for services from birth to age 21.

RISD operations are managed independently but are overseen by the Department of Administration (DOA) and the Rhode Island Department of Education (RIDE) for certain administrative functions such as human resources, purchasing, and budgeting.

## Recommendations and Management's Responses

### Develop Tuition Pricing Methodology

#### In-State Tuition

The State provides funding for core educational services at RISD through a budgetary appropriation each fiscal year. All additional services related to the special needs of students (physical therapy, counseling services, special education, etc.) is borne by the local districts in the form of tuition payments.

RIGL 16-26-12(b) states:

*(b) Tuition assessed at the school for the deaf to cover costs of educational services that are additional to the core deaf and hard-of-hearing education program shall be based on a graduated tuition schedule correlating to the varying needs of students.*

In accordance with this law, a tuition fee schedule must be developed which accurately captures the costs of "additional<sup>1</sup>" services.

RISD does not have a formally documented or implemented methodology for calculating tuition rates for students. The tuition rates currently in effect are based upon rates from state fiscal year (SFY) 2012 which were developed jointly between staff at RIDE and RISD. Tuition inflation adjustments were made during SFY 14, 16 and 17 for 4%, 3%, and 2% respectively. Due to turnover of staff at RISD and (RIDE), management was unable to explain specifically how the original tuition rates were calculated.

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<sup>1</sup> Additional services include physical and occupational therapy, special education services, counseling, and other services needed by students with special needs or developmental disabilities.

It is unclear whether the current tuition rates appropriately recapture expenses from municipalities and school districts.

### Out-of-State Tuition

RISD also has a small population of students from out of state. As general funds are appropriated to the school for the benefit of state residents, these funds should not be used to subsidize the cost of education of non-resident students. Therefore, the tuition fee schedule for out-of-state students should fully capture cost of educating those students and should be priced in accordance with other similar institutions.

These out-of-state municipalities have historically paid tuition to RISD but it is unclear if the tuition amounts fully recapture the cost of educating out-of-state students. RISD management has not implemented a formal process for calculating and updating tuition rates. Without a well-designed and implemented tuition methodology, RISD management lacks assurance that its tuition rates appropriately reflect the cost of services provided.

#### *Recommendation:*

1. Document and implement a formal methodology for calculating in-state tuition rates.
2. Document and implement a formal methodology for calculating out-of-state tuition rates. Include the performance of local market analysis to identify competitive and fair pricing structure for out-of-state students.
3. Establish and implement a regular interval for recalculating tuition rates to ensure a fair and current cost structure.

*Management's Response: The Rhode Island School for the Deaf Board of Trustees is reviewing all facets of a tuition methodology for in-state and out of state rates. A thorough assessment of surrounding state's tuition costs, CPI wage index, current staffing costs and other various administrative costs related to operating the State's only Deaf and Hard of Hearing School is being looked at in great detail. The Board met on June 13, 2018 and has authorized the hiring of an external independent financial analyst to assist with the re-structuring and development of a new rate methodology. The goal is to have this in place by March 2019. For the upcoming fiscal year (FY19), districts will be notified of a 4% rate increase.*

*Responsible Party: Board of Trustees, Director and Assistant Director of Finance*

*Anticipated Completion Date: Current rate increase will increase by 4% effective 7/1/2018 and the development of a new methodology by March 2019.*

### **Deposit Out-of-State Tuition Payments into Restricted Fund**

The OIA reviewed a sample of in-state and out-of-state tuition billings to assess the design and operation of controls over the collection of tuition revenues. These controls were adequate; all selected billings were properly calculated, billed and collected. However, some of the funds were not properly categorized in the state accounting system.

RIGL 16-26-12 (b) states in pertinent part:

*Tuition assessed at the school for the deaf to cover costs of educational services that are **additional to the core deaf and hard-of-hearing education program [emphasis added]** . . . shall be deposited in a restricted receipt account*

Our audit revealed that out-of-state tuition was not deposited into a restricted receipt account as required by state law. There was a misinterpretation of the law by budgetary officials at DOA. Prior to the implementation of RIGL 16-26-12 in 2009, out-of-state tuition revenue was historically deposited directly to the general fund. The new law was interpreted by budgetary staff to refer to in-state municipalities only.

The RISD budget is not in compliance with state law. Because the cost of additional services varies greatly from student to student, it is critical that the RISD captures the variable revenue associated with these costs in its restricted receipt account. If the school has an academic year with many special-need out-of-state students, its budget may not have the funds to support the extra services from its fixed general revenue appropriations.

*Recommendation:*

4. Deposit the portion of out-of-state tuition revenues attributable to additional services as defined by the law cited above into a restricted revenue account.

*Management's Responses: The Rhode Island School for the Deaf is grateful to the Department of Internal Audit for identifying that the R.I.G.L has been misinterpreted by budget officials. The out of state tuition is deposited into a restricted receipt account that is controlled by the Department of Administration, not the Rhode Island School for the Deaf. In order to ensure compliance with State Law, the Rhode Island School for the Deaf made a written request to the Department of Budget on May 9, 2018 for a review of this recommendation and to comply with State Law. At this time the Budget Office is reviewing this request.*

*Responsible Party: Assistant Director of Finance*

*Anticipated Completion Date: July 1, 2018*

### Lease and Rental Agreements need Improvement

A lease or rental contract defines the agreed-upon terms between a landlord and tenant agree to during their business relationship. It is a legal contract with crucial business details such as the duration of tenant occupancy, rights and obligations of each party, fees, and all other terms and conditions imposed by the landlord or tenant.

Our audit revealed weaknesses in the lease and rental agreements including:

- No defined payment due date
- No penalties for past due payments and bounced checks
- Certain insurance coverage requirements are not required

The terms and conditions of the lease and rental agreements do not require the lessee to name RISD as an additional insured on its general liability insurance policy. The additional insured endorsement is a contractual agreement between the lessor and the insurance carrier and provides the school the legal right to be treated as an insured under the policy.

If a claim is made against RISD arising out of the lessee negligence, RISD may incur costs to respond, investigate, and settle the claim if it is not included as an additional insured onto the policy of the lessee. Without the additional insured endorsement, the insurance carrier may deny coverage, including defense and investigation, thus shifting those costs to RISD. In addition, the insurance carrier will have no legal obligation to notify RISD if the policy lapses, cancels or otherwise is not in force.

Unclear landlord and tenant roles and responsibilities can lead to potential disputes, reputational damage and an increase risk of financial loss.

*Recommendation:*

5. Perform review of lease agreement by legal counsel to ensure the contract is written to protect the interests of RISD. Consider:
  - Modify the lease and rental agreements to include crucial terms that protect the school
  - Require a copy of the lessee liability insurance policy
  - Require the lessee to name RISD as an additional insured on its insurance policy

*Management's Response: The current rental agreement was developed by Legal Counsel and implemented by the Board of Trustees. It was modified immediately to reflect the language listing "the RI School for the Deaf as an additional insured". Thank you for your guidance to ensure the School and State are fully protected; the current rental agreement is being reviewed by Legal Counsel for updates. All rental agreements do require a current liability insurance policy listing RI School for the Deaf as an additional insured.*

*Responsible Party: Assistant Director of Finance and Implementation Aide*

*Anticipated Completion Date: June 30, 2018*

### Require Budgetary Approval for New-Hires

The state operating budget is approved annually by the state legislature and signed into law. State agencies must have adequate financial controls in place to ensure that expenditures are made in accordance with budgetary appropriation.

As of the close of the second quarter of state fiscal year 2018, RISD had a projected budget deficit of \$174k. This budgetary deficit is primarily attributable to projected overspending for salaries and wages expenses. Employees were recently hired at RISD even though the staff turnover target included in the budget had not yet been achieved resulting in a deficit situation. RISD does not have a formal process for budgetary approval for new-hires.

*Recommendation:*

6. Implement a process for documented budgetary review and approval of new hires.

*Management's Responses: All positions and fiscal impacts are evaluated currently between the Director and Assistant Director of Finance. In order to develop a stronger paper trail more clearly indicating that this procedure has taken place, the Rhode Island School for the Deaf has created an internal form for tracking purposes. This will indicate a budgetary assessment has occurred prior to the position being offered to ensure complete transparency. The anticipated deficit at the close of fiscal year 2018 is expected to be less than .01% of the total GR budget.*

*Responsible Party: Director and Assistant Director of Finance*

*Anticipated Completion Date: Immediately*

## Objective and Scope

The Office of Internal Audits ("OIA") conducted an audit of RI School for the Deaf. The purpose of this engagement is to determine if operations at RISD are being administered efficiently and effectively in accordance with applicable laws, rules, and regulations and if adequate controls are in place to ensure safeguarding of assets and accurate reporting. The scope of the audit was financial controls over cash receipts. The OIA did not assess the quality of educational services provided by RISD.

## Methodology

As part of our audit work we gained an understanding of the operations of RI School for the Deaf. To address our audit objective, we performed the following:

- Interviewed personnel, including financial and administrative staff;
- Researched Rhode Island General Laws and departmental rules and regulations;
- Tested a sample of in-state and out-of-state tuition payments;
- Tested a sample of school lunch program collections;
- Reviewed policies and procedures;
- Tested a sample of rental income;
- Tested a sample of the outreach program (consultation) receipts;
- Reviewed lease and rental agreements.