



Audit Summary

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Findings and Management Comments

Audit of the State's Fiscal 2015 Financial Statements

The State must develop a strategic plan to complete the Enterprise Resource Planning (ERP) system and address business continuity risks resulting from certain critical legacy systems such as the payroll system used to process employee payroll totaling \$1 billion annually. Overall, the State has not sufficiently addressed information technology (IT) security risks, an increasing concern given the State's very complex computing environment. These broader strategic issues, as well as weaknesses identified in the State's internal control over financial reporting, result from our annual audit of the State's financial statements for the year ended June 30, 2015.

The newly categorized strategic issue findings are generally conditions that have existed for several years and will likely require additional IT investment. Developing new or enhancing existing systems demands significant monetary and technical resources. RIFANS, the State's centralized accounting system, is largely effective and reliable for the functionalities that are operational; however, there is substantial opportunity for further efficiencies through completion of the State's ERP system.

One of the impediments to completing RIFANS has been the lack of a sufficient and consistent funding mechanism. The availability of funding from the Information Technology Investment Fund, created by section 42-11-2.5 of the General Laws, should be an important element of an overall strategic plan to complete RIFANS and other mission critical financial systems.

The State needs to ensure its IT security policies and procedures are current and well communicated. A complete assessment of compliance for all IT applications and systems should be performed, prioritizing those deemed to pose the most significant operational risk.

The Department of Transportation's use of multiple systems to meet its operational and financial reporting objectives results in unnecessary complexity and control weaknesses since these systems were never designed to share data.

The State's Office of Management and Budget has not fully addressed all the required functionalities outlined in the General Laws regarding oversight of federal grants within the State.

Certain standard IT control processes, such as program change control, have not been implemented uniformly on an organization-wide basis. The State did not perform a recommended test of its disaster recovery plan during fiscal 2015 due to funding concerns. Annual tests of the disaster recovery plan are critical to ensure that operations can be restored in the event of a disaster or disruption of service.

Medicaid managed care organizations (MCOs) were overpaid more than \$200 million due to overstated capitation rates for the Medicaid expansion population - approximately \$133 million remained due to the State at June 30, 2015. Due to contract provisions in effect during fiscal

2015, the MCOs will be allowed to keep a portion of the excess capitation payments. Gain share provisions in the contract were intended to reward the MCOs for overall cost efficiencies attained through enhanced case management, preventative care, and enhanced coordination of services. The significant amounts due back to the State, in this instance, resulted from excessive capitation amounts and not from efficiencies achieved by the MCOs.

Certain Division of Motor Vehicles' revenues/receipts were not recorded during fiscal 2015. Monitoring and reconciliation procedures should be enhanced to ensure timely recording of all revenues and cash receipts.

Certain duties performed by the Office of the General Treasurer are not adequately segregated resulting in control deficiencies. Statewide accounting controls over receivables can be enhanced.

Due to an error by the State's trustee, the State missed a scheduled debt service payment, which resulted in a technical event of default. Because the potential consequence of any default, technical or otherwise, is severe and could affect the State's reputation in the financial markets, a review of existing procedures is necessary to ensure adequate safeguards are in place to prompt timely remittance of all required debt service.

The Unemployment Insurance benefit application system has deficient (1) user administration security controls and (2) access controls for its user group, which has led to segregation of duties concerns. System user roles do not match the level of access employees should be assigned based on their job title/description, resulting in the ability to modify data within claimant applications without supervisory review or approval.

Our report also includes 17 management comments, which are less significant findings that highlight financial-related operational, policy or accounting control matters.

Management's response to the findings and management comments and planned corrective actions are included in our report.

The audit report is available on the Office of the Auditor General's website www.oag.ri.gov or by calling the office at 401.222.2435.

Strategic issue findings result from matters we observe during the audit that are generally broader in scope and may require a strategic planning focus to address the issues identified.

A **deficiency in internal control** exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

Control deficiencies classified as **material weaknesses** represent a higher likelihood that a material misstatement could occur and not be prevented or detected than those findings classified as **significant deficiencies**.

Other compliance matters involve issues regarding compliance with State or federal law or other matters required to be communicated by *Government Auditing Standards*.

Management comments are matters not meeting the above criteria but still warrant the attention of management. These include opportunities to enhance controls or result in other operational efficiencies.