



# Audit Summary

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## Findings and Management Comments

### Audit of the State's Fiscal 2016 Financial Statements

The State lacks a strategic plan to (1) coordinate needed replacements/enhancements to its key statewide financial systems and (2) ensure that critical legacy financial systems, such as the payroll system, which pose a business continuity risk, will be available to support State operations. Because the State has opted to utilize various independent software solutions, the plan is critically important. Without a comprehensive plan, there is substantial risk that the intended integration of various components may not be achieved.

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, 2016. The State's management has responsibility for, and maintains internal control over, financial reporting. *Government Auditing Standards* require that we communicate deficiencies in internal control over financial reporting based on our audit.

The State can enhance its communication and implementation of a statewide approach to design, document, and monitor its internal control policies and procedures following the principles contained in the revised internal control framework. The State's system of internal controls is intended to safeguard public resources and support accurate financial reporting.

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.

Net recoverable gain share amounts totaling \$101 million from Medicaid managed care organizations (MCOs) were outstanding at June 30, 2016. Of this amount, gain share totaled \$120 million for individuals covered under the Medicaid expansion provision. Only \$36 million of \$133 million (Medicaid expansion) that was outstanding at the close of the prior fiscal year was collected during fiscal 2016. An additional \$22 million is owed to the State for the contract period ended June 30, 2016.

The complexity of Medicaid program operations adds to the challenge of accurately accounting for all Medicaid program related financial activity within the State's financial statements. The complexity of the Medicaid program continues to increase each year through federal Affordable Care Act (ACA) provisions and various State initiatives that have changed how services are delivered and providers are reimbursed. Medicaid is the State's single largest program activity - representing nearly 25% of the annual budgeted outlays. Consequently, the financial aspects of this program are material to the State's financial reporting objectives.

Overall, the State has not sufficiently addressed information technology (IT) security risks, an increasing concern given the State's very complex computing environment. The State needs to ensure its IT security policies and procedures are current and well communicated. Assessments of compliance for all critical IT applications have not been performed - systems deemed to pose the most significant operational risk must be prioritized.

Summary of findings and management comments resulting from the audit of the State's fiscal 2016 financial statements

	Primary Government	Component units	Total
<b>Control deficiencies and compliance matters</b>			
Material weaknesses	9	2	11
Significant deficiencies	14	3	17
Other compliance matters	1	1	2
<b>Management Comments</b>	11		11

The State did not perform tests of its disaster recovery plan during fiscal 2015 and 2016. This reduces the assurance that all mission critical systems can be restored should a disaster disable or suspend operations.

The State does not follow uniform enterprise-wide program change control procedures for the various IT applications operating within State government. This increases the risk that unauthorized or inappropriate changes could be made to IT applications without detection.

Implementation of a new Taxation IT system (STAARS) presented issues impacting financial reporting due to processing timeframes for personal income tax returns and other returns held in suspense. This affected accruals based on historical processing timelines and complicated financial reporting estimates due to the

uncertain effect of returns that had not fully processed at June 30, 2016.

Electronic data received by Taxation should remain encrypted and then be uploaded to Taxation’s systems through automated processes without manual intervention. Current procedures create rather than restrict opportunities for data manipulation.

Historical data used to support significant financial reporting estimates for tax revenues should be reassessed periodically to ensure continued validity – this is particularly important with more current data emanating from the new STAARS system.

Critical Division of Taxation back-up data files are not stored off-site – a recommended disaster recovery best practice. Additionally, the Division of Taxation had inconsistent measures of recognizing taxes receivable across different tax types.

STAARS system user access rights need to be assessed and tailored to ensure access is consistent and appropriate with each employee’s responsibilities.

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 (OMB) has not fully addressed all the required functionalities outlined in the General Laws regarding oversight of federal grants within the State.

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.

We have also included control deficiencies and material noncompliance reported by the independent auditors of component units (e.g., Met School, Central Falls School District, and the Convention Center Authority) included within the State’s financial statements. While their financial activity is reported within the State’s CAFR, their accounting and control procedures are generally independent of the State’s control procedures.

Our report also includes 11 management comments, which are less significant findings that highlight financial-related operational, policy or accounting control matters. These address, the formats of annual budgets, monitoring of internal service funds, subrecipient monitoring, the “Cadillac tax” on health plans, accounting for capital assets, accumulation of significant commitments, and other accounting and financial reporting issues.

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](http://www.oag.ri.gov) or by calling the office at 401.222.2435.