STATE OF RHODE ISLAND

FINDINGS AND MANAGEMENT COMMENTS

Resulting from the Audit of the
State of Rhode Island’s
Fiscal 2020 Financial Statements

Dennis E. Hoyle, CPA, Auditor General
Office of the Auditor General
General Assembly
State of Rhode Island
April 16, 2021

Finance Committee of the House of Representatives  
Joint Committee on Legislative Services, General Assembly  
State of Rhode Island

We have audited the financial statements of the State of Rhode Island for the year ended June 30, 2020 and have issued our report thereon dated February 19, 2021 in the State’s Comprehensive Annual Financial Report for fiscal 2020.

As required by Government Auditing Standards, we have also prepared a report, dated February 19, 2021 and included herein, on our consideration of the State’s internal control over financial reporting, its compliance with certain provisions of laws, regulations and contracts, and other matters required to be reported by those standards. That report includes identification of control deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting as well as instances of material noncompliance. Our findings related to the financial statements are categorized below:

- 24 findings considered significant deficiencies or material weaknesses in internal control over financial reporting;
- 2 findings concerning compliance or other matters required to be reported by Government Auditing Standards.

Our report includes four findings reported by the auditors of component units (legally separate entities included within the State’s financial statements).

This communication also includes 19 management comments resulting from our audit of the financial statements which are less significant issues that still warrant the attention of management.

Our Single Audit Report for fiscal 2020 is in progress and is scheduled to be completed later this year. That report will include findings related to controls over compliance with federal program requirements and the administration of federal programs.

The State’s management has provided their planned corrective actions relative to these findings and management comments, which have been included herein.

Sincerely,

Dennis E. Hoyle, CPA  
Auditor General
State of Rhode Island
Findings and Management Comments
Audit of the Fiscal 2020 Financial Statements

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### III. MANAGEMENT COMMENTS

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The State must address certain long-standing issues which negatively impact controls over operations and financial reporting. Many of these result from the need for increased investment in information technology to keep pace with citizen expectations, rapid technology advancements, federal program compliance mandates, and the multi-faceted challenges of responding to a global pandemic.

During fiscal 2020, the State responded quickly to pandemic induced challenges with targeted technology enhancements. These included, supporting employees working remotely for the first time, processing changes to deal with an unprecedented increase in unemployment benefit claims, and multiple technology solutions to manage the scheduling, tracking and communication of COVID-19 tests. Continued technology deployments are necessary to support efficiency, effectiveness, and the ability to be strategically prepared for eventual crises.

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, 2020. 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 and material noncompliance based on our audit. Findings repeated from prior years are identified. When corrective actions are underway but incomplete, we note the incremental progress.

The State completed a strategic plan in January 2020 to coordinate needed replacements/enhancements to its key statewide financial and administrative systems. Implementation and funding of the strategic plan is essential to ensure that critical legacy financial systems, such as the payroll system, will be available to support State operations. The plan details the need for, and the benefits to be derived from, an enterprise applications modernization effort ultimately concluding that “the risks of inaction far outweigh the cost of upgrades in capability”.

Controls within the systems used to process unemployment insurance claims are insufficient to prevent fraudulent unemployment insurance benefit payments. The State’s system for payment of unemployment insurance claims and collection of employment taxes is outdated. Recent efforts to develop a new system remain incomplete.

The State does not have a process to quantify unemployment insurance benefits approved but unpaid at fiscal year-end.

Management focus, training and implementation resources have been insufficient to ensure that departments and agencies are assessing and documenting internal control consistent with management’s overall responsibility for the adequacy of the design and operation of internal control. Internal controls safeguard public resources and support accurate financial reporting.

The State should commit to providing additional training and implementation materials to assist departments and agencies in documenting their internal control. An internal control assessment and documentation effort should be implemented.

The State can continue to improve its consideration of controls over functions performed by external parties by enhancing the use and documentation of Service Organization Control (SOC) reports. These improvements are necessary and consistent with management’s responsibility for the overall adequacy of the design and operation of internal control.

The complexity of Medicaid program operations adds to the challenge of accurately accounting for all Medicaid financial activity within the State’s financial statements. This complexity increases each year through new federal regulations, various State initiatives, and additional challenges resulting from implementation of its RIBridges eligibility system. Medicaid is the State’s single largest activity - representing nearly 35% of the annual budgeted outlays of the State’s General Fund.

Responsibility for monitoring the investment activity of more than $369 million of funds on deposit with a fiscal agent (trustee) can be improved and should be vested with the Office of the General Treasurer.

The Executive Office of Health and Human Services (EOHHS) authorized more than $190 million in system payouts and manual disbursements in fiscal 2020, representing provider advances, payments to managed care organizations for contract settlements and/or non-claims based financial activity, and other program disbursements. The reporting and internal control processes relating to these types of disbursements are manual in nature and external to other established control procedures.

The State can improve controls over recording federal revenue to ensure (1) amounts are consistent with the limitations of grant awards from the federal government and (2) federally claimed expenditures are consistent with amounts recorded in the State’s accounting system.
Executive Summary

The State needs to ensure (1) its IT security policies and procedures are current and (2) complete assessments of compliance for all critical IT applications. Systems posing the most significant operational risk should be prioritized.

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.

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 resources necessary to effectively manage and administer the OPEB (retiree healthcare) System to ensure all functions are met and adequately controlled should be assessed. A unified database or computer application is needed to maintain membership data for each of the State’s OPEB plans. This would improve controls over the administration of the benefit programs and the process to accumulate data necessary for periodic actuarial valuations of the OPEB plans for both funding and accounting purposes.

Our report includes control deficiencies and material noncompliance reported by the independent auditors of component units included within the State’s financial statements. Their accounting and control procedures are generally independent of the State’s control procedures.

Our report also includes 19 management comments that highlight opportunities for enhancement of financial-related operational, policy or accounting control matters.

Advances outstanding to providers of services to individuals with developmental disabilities need to be permanently resolved. During fiscal 2020, these advances were not reduced by the sale proceeds from State-owned group homes as required by the General Laws.

The remaining activities of the Division of Higher Education Assistance should be accounted for within the State’s General Fund rather than as a discretely presented component unit.

The processes followed for periodic physical inventories of capital assets and the evaluation of inventory results can be improved to ensure that accurate capital asset records are maintained.

For the Information Technology internal service fund, policies should be enhanced to provide for consistent recognition of revenue and expense thereby ensuring the fund operates on as close to a break-even model as possible.

Processing functionalities within the Division of Taxation’s STAARS system result in a volume of returns held in suspense pending resolution. This complicates financial reporting estimates due to the uncertain effect of returns that had not fully processed at fiscal year-end.

The Tobacco Settlement Financing Corporation requires additional administrative support and should periodically update its projected debt service requirements to reflect operating and other economic factors.

Legal case tracking software must be implemented organization-wide to enhance the administrative management and control of pending legal matters.

The State budget officer performs a variety of accounting-related tasks that should be reassigned to other State operating units.

Certain operating and long-term liability metrics for the Rhode Island Public Transit Authority warrant enhanced oversight by the State to ensure the sustainability and availability of public transit service.

Monitoring of escrow liability account balances can be further enhanced to ensure timely reconciliation of balances and compliance with newly established control procedures.

A formal funding policy should be adopted for the State’s OPEB plans which incorporates statutory provisions and key actuarial funding policies.

Other management comments address the accounting for capital projects, converting more disbursement transactions to ACH, subrecipient monitoring, and other accounting and financial reporting issues.

Management’s response to the findings and management comments are included in our report. Management generally concurs with the findings and recommendations included in this report and has outlined specific corrective actions to be taken and an implementation timeline.
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS and

SCHEDULE OF FINDINGS AND RESPONSES
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Finance Committee of the House of Representatives and Joint Committee on Legislative Services, General Assembly, State of Rhode Island

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Rhode Island (the State), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the State’s basic financial statements and have issued our report thereon dated February 19, 2021. Our report includes a reference to other auditors who audited the financial statements of:

- the Tobacco Settlement Financing Corporation, a blended component unit which represents 1% of the assets and deferred outflows and 1% of the revenues of the governmental activities and 1% of the assets and 2% of the revenues of the aggregate remaining fund information;
- the Convention Center Authority, a major fund, which represents 30% of the assets and deferred outflows and 1% of the revenues of the business-type activities;
- the HealthSource RI Trust, an agency fund, the Ocean State Investment Pool, an investment trust fund, and the Rhode Island Higher Education Savings Trust, a private-purpose trust fund, which collectively represent 33% of the assets and 23% of the revenues of the aggregate remaining fund information; and
- all the component units comprising the aggregate discretely presented component units.

This report includes our consideration of the results of the other auditors’ testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State’s internal control. Accordingly, we do not express an opinion on the effectiveness of the State’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant
Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly

deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we and the other auditors did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the State’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: Findings 2020-002, 2020-004, 2020-005, 2020-006, 2020-010, 2020-013, and 2020-019. Other auditors of the discretely presented component units considered the deficiency described in the accompanying schedule of findings and responses to be a material weakness: Finding 2020-023.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies: Findings 2020-001, 2020-003, 2020-007, 2020-008, 2020-009, 2020-011, 2020-012, 2020-014, 2020-015, 2020-016, 2020-017, 2020-018, 2020-020, and 2020-021. Other auditors of the discretely presented component units considered the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies: Findings 2020-024 and 2020-025.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed a matter that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and responses as Finding 2020-002. Other auditors of the discretely presented component units disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and responses as Finding 2020-022.

State’s Response to Findings

The State’s responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The State’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the State’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dennis E. Hoyle, CPA
Auditor General

February 19, 2021
IMPLEMENTATION OF THE STRATEGIC PLAN FOR CRITICAL FINANCIAL AND ADMINISTRATIVE COMPUTER SYSTEMS

The State completed a strategic plan to coordinate needed replacements/enhancements to its key statewide financial and administrative systems. Implementation and funding of the strategic plan is essential to ensure that critical legacy financial systems, such as the payroll system, which pose a business continuity risk, will be available to support State operations.

Background: The State completed a strategic plan in January 2020 which details the need for, and the benefits to be derived from, an enterprise applications modernization effort, highlighting that “the risks of inaction far outweigh the cost of upgrades in capability”.

Criteria: Management needs well-designed financial systems that support comprehensive internal controls over financial reporting, enable organization-wide efficiencies, and promote business continuity. Integrated functionalities support appropriate internal controls and eliminate inefficiencies resulting from multiple systems, duplicate data entry and ineffective communication between systems. A consistent source of funding needs to be secured to support this multi-year effort through completion.

Condition: Important functionalities are minimally met through legacy systems, the existing statewide accounting system, and multiple departmental processes without intended integration and efficiencies. This results in business continuity risk, decreased efficiency and effectiveness, and control weaknesses. Some of the State’s critical systems utilize outdated technology which makes these operations vulnerable from a business continuity and systems security perspective. Certain legacy systems utilize software that is no longer supported and the availability of skilled personnel to work on these systems is limited.

Many of the needed financial functionalities are interdependent and, consequently, the risk of failed integration is increased absent appropriate strategic planning and sequencing.

The recent pandemic-induced migration to a remote work environment further highlighted the ineffectiveness of the State’s current human resource and payroll systems which still utilize paper transaction approval processes. Intensive departmental reallocation of personnel costs eligible for newly available COVID-19 federal funding was all performed independent of the State’s payroll system. This created the potential for errors and employed inconsistent methodologies. The State needs to rapidly implement a modern human resource system, not only to better support those functions but also to facilitate other needed system and technology enhancements (e.g., cost allocation, grants management etc.).

Cause: The State’s current accounting and financial reporting system lacks the integration and functionality of a comprehensive Enterprise Resource Planning (ERP) system. The State’s human resource and payroll systems are separate applications that utilize outdated technology and are supported by multiple paper-based data collection and approval processes.

Effect: Business continuity risks, deficiencies in internal control over financial reporting, and the lack of organization-wide efficiencies exist and are exacerbated due to the lack of an integrated ERP system.

RECOMMENDATIONS

2020-001a  Implement the comprehensive strategic plan to address the business continuity risks, deficiencies in controls over financial reporting and operational inefficiencies identified in the State’s current financial systems.

2020-001b  Secure a consistent funding stream to ensure resources are available for the project through completion.
Management's Views and Corrective Actions:

2020-001a - Division of Information Technology leadership continues to agree with the need to implement a commercial off the shelf (COTS) enterprise resource planning (ERP) system in a comprehensive and strategic manner. The Enterprise Applications Strategic Plan is the foundation for Rhode Island’s multi-year effort to transform its enterprise technology and business processes to better meet the needs of the State, its residents, and its partners. The State wants to improve efficiencies, integrate multiple systems, automate manual processes, increase the quality and timeliness of data to decision makers and replace and modernize its current enterprise technologies. The objectives of modernizing obsolete enterprise applications will:

- Address audit findings
- Reduce risk
- Enable business improvements, provide expanded functionality, and information for managing
- Address manual processes that are more prone to errors

Anticipated Completion Date: The following dates are directional pending funding approval for the Enterprise Applications Strategic Plan program. Moreover, a systems integrator / software vendor will need to confirm these dates after the Request for Proposal (RFP) is released, an SI/software vendor is selected, and a comprehensive project plan is created:

- HR/Payroll Implemented by 12/31/2022*
- Grants Management Core Agencies 12/31/2021, Remaining Agencies 12/31/2022
- Finance Implemented by 12/31/2024*

*Funding Dependent

2020-001b - Division of Information Technology leadership continues to seek funding through multiple means to implement the strategic plan. This includes Federal, State, Grants and other means to fully fund the implementation and post implementation support. The funding model was outlined in the strategic plan.

Anticipated Completion Date: June 30, 2021

Contact Person: Alan Dias, Assistant Director Information Technology
Alan.Dias@doit.ri.gov

**Finding 2020-002 (material weakness and other matter required to be reported by Government Auditing Standards – new finding)**

CONTROLS OVER UNEMPLOYMENT INSURANCE BENEFIT PAYMENTS

Controls over the processing of unemployment insurance claims are ineffective to sufficiently prevent fraudulent unemployment insurance benefit payments. The State’s system used to process unemployment insurance claims utilizes outdated technology. Recent efforts to develop a new system remain incomplete.

**Background:** In fiscal 2020, the Department of Labor and Training (DLT) paid more than $1.4 billion in unemployment insurance benefits, an increase of 860% from fiscal 2019. In response to the COVID-19 pandemic, the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act expanded and/or extended unemployment insurance benefits, including providing new benefits to self-employed individuals and independent contractors. Fraudulent claims for unemployment insurance benefits also increased rapidly, concurrent with the overall increase in claims due to the pandemic. This unprecedented increase in fraudulent claims was experienced nationwide and was not unique to Rhode Island.
The system used by DLT to process unemployment insurance (UI) benefits utilizes outdated technology. This legacy system is mainframe based and programmed in COBOL. In response to the pandemic related surge in unemployment insurance claims, new “cloud-based” technologies were rapidly deployed to facilitate processing the volume of claims and interactions with claimants; however, the primary claims processing functions were still performed by the legacy system.

In 2013, Rhode Island joined a consortium with several other states to develop a new unemployment insurance claims processing system. In 2018, Rhode Island suspended its involvement with the consortium. The State’s cumulative investment in the consortium project totals approximately $14.5 million. The system has not been completed for use in Rhode Island, although it is operational in other states.

**Criteria:** Management is responsible for establishing and maintaining effective internal controls to process and disburse unemployment insurance benefits consistent with federal program guidelines including appropriate procedures to prevent and detect fraudulent payments.

**Condition:** DLT’s internal control procedures were not sufficiently effective to ensure that unemployment benefit payments were made only to eligible individuals. DLT estimated $10 million in fraudulent claims were paid between March and June 30, 2020. Management recognized an estimated receivable for these amounts and a liability to the federal government for fraudulent benefits recovered. In response to the increase in fraudulent benefit claims, DLT engaged a contractor to assist in the detection of likely fraud which included the use of advanced analytic techniques. While appropriate and somewhat effective in identifying likely fraudulent claims prior to disbursement, these procedures are external to the DLT systems used to process unemployment insurance claims.

Controls over claims processing were weakened through suspension of the first week waiting period, a simplified application implemented to streamline and expedite processing, and the inability to apply the normal wage verification procedures to claims from self-employed individuals and independent contractors.

Whether the State’s cumulative investment to date in a newer unemployment benefit processing system (through the multi-state consortium) is viable, and with additional investment, may meet DLT’s needs, including addressing fraud risks, remains unclear.

**Cause:** The large volume of claims stressed an outdated system and the unprecedented economic impact warranted rapid processing of claims. The rapid implementation of new unemployment benefit programs authorized by the CARES Act did not allow sufficient time to employ wage verification and other procedures. Other procedures to verify client identity, prior wages and overall eligibility were also weakened due to the unprecedented volume of claims and new procedures employed to expedite benefit payments. Lastly, the substantial increase in fraudulent claims activity is largely considered to be the result of sustained and targeted efforts impacting many states.

**Effect:** Fraudulent unemployment insurance claims have been paid and DLT’s systems require further enhancements to timely identify fraudulent benefit claims prior to disbursement. DLT remains at a critical juncture in developing a strategy to upgrade and modernize its unemployment insurance claims processing systems while ensuring compliance with federal program requirements including the prevention and detection of fraudulent benefit payments.

**RECOMMENDATIONS**

2020-002a Continue to enhance procedures to timely identify fraudulent claims by strengthening controls within the legacy claims processing system as well as those newly implemented processing functionalities employed to meet the increase in claims activity.

2020-002b Implement a strategic plan to address the required modernization of the unemployment benefit claims processing system which addresses the State’s investment to date in the multi-state consortium project.

**Management’s Views and Corrective Actions:**

In April 2020, DLT identified an increase in fraudulent unemployment insurance (UI) claims in its system resulting from a nationwide epidemic of criminal instances of identity theft. Immediately, DLT made a variety of digital security updates. Additionally, in May 2020, DLT entered into a contract with a cyber security firm to assist with fraud detection efforts. DLT’s relationship with this vendor is ongoing and has continued.
to mature and improve from the date of the initial contract to the present. The vendor uses state-of-the-art technology to help DLT identify UI claims that exhibit suspicious characteristics.

Since the end of June 2020, DLT has implemented specific security updates and digital products to aid DLT staff in identity verification to combat imposter fraud.

In August 2020, a large number of upfront fraud stops were added to DLT’s system in both the UI and PUA programs. These stops were implemented to detect and auto-stop fraudulent claims requiring UI claimants to undergo more thorough identity verification prior to payment processing.

In late January 2021, additional auto-stops were added to the UI claims system addressing trends identified by both KGS and DLT staff. These stops include targeting certain characteristics associated with fraudulent claims to meet newly recognized identity fraud activity.

The AS400, through our COBOL programming team, has been able to accommodate each modification implemented throughout the pandemic, whether intended to prevent and detect fraud or to comply with federal legislation extending or enhancing benefits.

DLT will continue to work with its contractors and internal staff to develop ever-increasing controls over the processing of UI claims. Specifically, DLT will continue to develop strategies to detect and deter fraudulent payments in the first instance, before payments are ever processed. DLT’s overall fraud strategy will be incorporated into the design of our new UI system which is currently under development. This new system will effectively replace the legacy system and enable more efficient fraud prevention mechanisms to be developed.

The UI and TDI systems were migrated on February 19, 2021 to new IBM i9 AS400 series machines. All hardware, operating systems, and 3rd party software are current and supported. All systems are secured and configured using IRS Pub 1075 and NIST standards. Although the legacy system remains written in COBOL, the ability of the system to process claims is stable, secure, and able to meet the processing needs of the Agency. Many other improvements to the overall security and support of the infrastructure has also occurred in the last 12 months. Please request these details from the Security Team.

The ability to add a brand-new type of claim application, Pandemic Unemployment Assistance (PUA) for contractors and gig workers was quicker to do outside of the legacy system. With a new set of resources focused on PUA claim website task, the existing DoIT programmers have been able to focus on the rest of the State and Federal changes needed to address the new requirements from USDOL on regular UI claims.

Wage verification was never removed from the eligibility process for self-employed and independent contractors. In fact, provisions were made to access AGI from Taxation to support PUA. Wage record access to identify subject wages in the regular UI application has remained in place throughout the pandemic and will continue as such into the future.

**Anticipated Completion Date:**

a) Implementing Fraud – January 31, 2021, but efforts will be ongoing as new fraud schemes present themselves.

b) Implementation of Strategic Plan – June 30, 2021

**Contact Persons:**

Kathy Catanzaro, Assistant, Director, Income Support, DLT
Kathy.Catanzaro@dlt.ri.gov

Sandra Deneault, IT Assistant Director, DoIT
Sandra.Deneault@doit.ri.gov
UNEMPLOYMENT INSURANCE BENEFIT ACCRUALS

The State does not have a process to quantify unemployment insurance benefits approved but unpaid at fiscal year end.

**Background:** The Employment Security Fund is used to account for the collection of employer taxes and the payment of unemployment insurance benefits. In accordance with generally accepted accounting principles (GAAP), the Employment Security Fund is accounted for on the accrual basis and reported as a proprietary fund in the State’s financial statements.

**Criteria:** Under accrual basis accounting, transactions are recorded in the period when they occur, regardless of the timing of cash flows.

**Condition:** Benefit payments are currently recorded in the financial system when paid. The Department of Labor and Training (DLT) has not implemented fiscal closing procedures to identify claims approved for payment but not disbursed at fiscal year-end. Most benefit payments were current at June 30; however, reporting procedures should be enhanced to track any benefit payments requiring accrual.

**Cause:** Fiscal closing procedures for the Employment Security Fund do not include efforts to detect and measure any benefit payment which should be accrued at June 30 in accordance with GAAP.

**Effect:** Benefit expenses and liabilities could be misstated at year-end.

**RECOMMENDATION**

2020-003 Enhance Employment Security Fund fiscal closing procedures to identify and accrue benefits approved and unpaid at year-end.

**Management’s Views and Corrective Actions:**

UI will work with Business Affairs and Information Technology (IT) teams to develop programming to identify all payments made within the first sixty (60) days of each fiscal year, or within the time period up to the fiscal year-end deadline specified by the State Controller if sooner, that are attributable to compensable weeks occurring in the prior fiscal year.

For example, on or around August 30, 2021, UI will request a report of all UI payments processed between July 1, 2021 and August 30, 2021, which are attributable to compensable weeks-ending July 4, 2020 through June 26, 2021.

Although any fiscal year may begin and/or end in the middle of a week, the difference in payments processed on the days occurring prior to or later than the actual week-ending dates is negligible.

This annual report will be submitted to the Office of Accounts and Control to accrue the benefits approved and unpaid at fiscal year-end for inclusion in the State’s financial statements. A policy memo will be issued to all Administrative Benefits, IT, and Business Affairs leadership staff to ensure this process becomes a known and understood component of each year's fiscal year-end closing process.

**Anticipated Completion Date:** August 31, 2021

**Contact Persons:**

Kathy Catanzaro, Assistant, Director, Income Support
Kathy.Catanzaro@dlt.ri.gov

Denise Paquet, Assistant Director, Business Affairs
Denise.Paquet@dlt.ri.gov
MEDICAID PROGRAM COMPLEXITY AFFECTS FINANCIAL REPORTING AND OVERALL PROGRAM CONTROLS

The continued and growing 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.

Background: The complexity of the Medicaid program increases each year through new federal regulations, complex managed care contract settlement provisions, new State initiatives, and continued challenges relating to the State’s integrated human services eligibility system, RIBridges. Medicaid is the State’s single largest program activity - representing approximately 35% of the State’s General Fund expenditures. Consequently, the financial aspects of this program are material to the State’s financial reporting objectives.

Criteria: Management is responsible for establishing and maintaining internal control over financial reporting to ensure accurate and complete reporting of transactions in accordance with generally accepted accounting principles.

Condition: Significant Medicaid program activity is currently being accounted for external to the systemic controls and processes designed within the program. In addition, the State relies on contract services to manually accumulate, evaluate, and determine settlements and/or payments relating to these program activities. Due to the length of settlement periods, the extended duration of eligibility system issues, and the volume of transactions being accumulated and evaluated independent of regular program controls, risks relating to inaccurate financial activity and federal compliance have increased.

The following were examples during fiscal 2020 where financial reporting was impacted by the above condition:

• Preliminary contract settlement reports submitted by the Managed Care Organizations (MCOs) at year-end did not reflect the impact on anticipated claiming resulting from the on-going public health emergency caused by COVID-19,

• Certain program activities require manual adjustment because systemic processing (eligibility coding by RIBridges) of the financial activity is not accurate,

• Liabilities relating to outstanding prior period contract settlements were omitted from year-end reporting, and

• Certain year-end manual calculations of liabilities and receivables did not include consistent treatment with how the related expenditures were split amongst the various managed care populations because the year-end calculations are separate and distinct from the systemic processing of the activity during the fiscal year.

Although the above examples were all properly adjusted in the State’s financial statements, the underlying condition continues to present annual challenges to the State’s financial reporting.

Cause: Ensuring all financial activity is properly and completely recorded in the State’s financial statements is an increasingly complex task. MCO risk and gain share settlements, settlements with Federally Qualified Health Center (FQHC) providers, outstanding amounts due to MCOs for eligible births and stop loss expenditures for services reimbursed outside of capitation all required manual accumulation by consultants as part of the year-end accrual process. The financial effect of these settlements and program provisions totaled in the hundreds of millions of dollars. Much of this activity is higher risk from a financial reporting and federal program compliance perspective as it is less subject to systemic controls and instead is accounted for through manual independent processes. The State also lacks a formal risk assessment for these material financial settlement provisions that would identify the areas where additional data validation is warranted. While the State evaluates encounter data and other information submitted by the MCOs, it has not utilized contract audit provisions to specifically target areas where financial risks are not mitigated through other procedures.

Effect: Potential effects of this control deficiency include unrecorded or inaccurately recorded financial transactions, incorrect reimbursements to providers or managed care organizations, and noncompliance with federal regulations.
RECOMMENDATIONS

2020-004a  Formalize a risk assessment process for significant Medicaid related activities to determine where controls and other data validation procedures are required. Delineate those control responsibilities delegated to contractors, the source and the reliability of the data utilized in those processes, and whether those processes are sufficient to ensure accurate financial reporting of these Medicaid activities.

2020-004b  Utilize managed care contract audit provisions to validate data provided by managed care organizations for significant financial program activities.

2020-004c  Minimize instances where material financial activities are reliant on manual processes to ensure proper financial reporting.

Management’s Views and Corrective Actions:

2020-004a - EOHHS acknowledges the complexity of the Medicaid program and our financial activities. EOHHS is aware of many of the risks facing the program’s financial reporting, including over-reliance on manual payments, and has already taken steps to simplify Medicaid-related financial activities and improve oversight as outlined below. Additionally, State FTEs are closely involved in the process of reviewing encounter and other financial data submitted by the MCOs – these functions are not performed strictly by contracted staff. The steps taken to-date to improve oversight are outlined below:

1. Risk share settlements

   a. MCO risk share settlements are based on MCO submitted reporting and validated against accepted encounter claims in the MMIS. EOHHS recognizes that for this reason MCO reporting would ideally be validated against other sources. This is why, in FY20, the state implemented a requirement that the MCOs report quarterly through a new “Financial Data Reporting System” (FDRS) their membership, benefit expenses, including general ledger adjustments, sub-capitated arrangements, reinsurance arrangements, reserves, benefit expense recoveries and administrative costs for each Premium Rating Group. These expenses are reported at either the rate cell and category of service level, or at the product level (Rite Care/Expansion, etc.).

   The MCOs must reconcile the information in its FDRS to their NAIC financial statements. EOHHS utilizes this FDRS data in rate setting as well as to monitor MCO financial performance throughout the year.

   EOHHS began utilizing the FDRS reporting for risk share settlement beginning with the final reconciliation for FY 2019. This allows for the risk share reporting to be validated against other financial reporting and in alignment with rate setting activities.

   b. In addition, in SFY21, EOHHS proposed moving our MCOs to full risk capitation which would have eliminated the need for risk share settlements entirely. This was not enacted, and EOHHS did not propose it again in FY22 due to the pandemic and CMS’ encouragement of risk corridors. However, EOHHS will move in this direction as soon as is feasible.

2. Settlements with FQHCs

   a. EOHHS recognizes that the FQHC settlements presented numerous risks. FQHC settlements resulted from the fact that the state needed to supplement MCO payments to FQHCs to ensure the FQHCs received their full encounter rate for eligible encounters; the state had to reconcile what the FQHCs had already received versus what remained outstanding, and this amount was paid in manual transactions.

   To mitigate this risk, in FY20, EOHHS began requiring the MCOs to pay the full FQHC encounter rate for eligible encounters. As a result, manual payments from the state to the FQHCs will no longer occur.
3. **Stop loss programs**
   
a. **EOHHS** recognizes that the stop loss payments resulted in additional manual payments, creating risk of error. As a result, in FY22, EOHHS plans to eliminate its Hepatitis C stop loss program and its organ transplant stop loss program. This will eliminate manual payments made by the state to the MCOs. However, stop loss programs will remain where necessary; specifically, there will be a COVID vaccine “non-risk” stop loss program where the state pays the full amount of vaccine administration reimbursement back to the MCO.

4. **Limiting manual capitation payments**
   
a. **EOHHS** recognizes that retroactive capitation payments can result in additional manual payments, creating risk of error. For premiums paid monthly, the MMIS can systematically correct payments made within a three-month window – retroactively for the prior month, the current month, and prospectively for the future month. For capitation paid daily (RiteCare), corrections can only be systematically made within a two-month window – for the current month and prospectively for the future month. However, within the last year for both program types (daily and monthly) new processes have been incorporated into the MMIS to allow for systematic adjustments to payments retroactively in two scenarios; 1) based on a Newborns Date of Birth and; 2) based on a recipient's Date of Death. These two scenarios contributed to the highest number of retroactive adjustments aside from rate changes. Any corrections outside of the systematic adjustment windows or aside from the newborn and death causes still must be processed manually unless additional system modifications are done.

   In an effort to limit system modifications but further reduce manual payments, throughout FY20, EOHHS developed an internal MCO contract project charter and workgroup with the express goal of ensuring that our contract amendments and MCO capitation rates would be completed timely and ensure that MCO rates are in the system at the start of the year, or soon thereafter to minimize any manual payments.

   However, in FY21, there was a delay in the state budget enactment that led to a delay in the final FY21 rates that was out of EOHHS’ control and resulted in large manual payments. Note that some states input new fiscal year rates without final state budgets or signed contracts, but EOHHS has assessed that this creates its own risk and that the current approach is preferred.

   In addition to the above steps already taken, by June 2021 the agency will work with the Office of the Auditor General to gain a more detailed understanding of the finding to conduct a more targeted formal risk assessment process to determine where additional controls and other data validation procedures are required to improve baseline performance in ensuring accurate financial reporting.

2020-004b - **EOHHS’ MCO contracts state** “The State retains the right to conduct, or cause to be conducted, specific audits. These audits may be conducted upon reasonable notification to the Contractor, and the audits would focus on matters related, but not limited, to: Invoicing by the Contractor for provisions of services; Payment to the Contractor by the State; Compliance with any of the terms and conditions of the Contract or Contract Amendments.” This audit finding recommends that the state conduct audits as needed to validate data provided by the MCOs for areas of significant financial impact.

EOHHS utilized this provision in FY20 to determine root cause of a significant shift in the value of NHPRI risk share reporting that occurred in FY19. Specifically, in June 2018, NHPRI reported a risk share receivable of $13.5 million for which EOHHS subsequently paid NHPRI a $10.8 million risk share settlement. As of February 2019, NHPRI revised and adjusted its risk share receivable downward to $548,637 and EOHHS subsequently recouped $10.3 million risk share settlement from NHPRI. The change was driven by overstatement of an estimate of incurred but not reported claims, as well as changes in classification of spending. Identifying these issues resulted in EOHHS validating IBNR projections and implementing the FDRS quarterly reporting and monitoring meetings to ensure consistent interpretation of definitions and that anomalies can be found on a regular basis.

EOHHS will continue to utilize this contract provision as necessary.
EOHHS notes that the Health Plans’ controls include the following: annual audited financial statements, including opinions, from external auditors; annual actuarial opinions from external auditors; NAIC and DBR statutory filings, including risk-based capital reports; model audit rule compliance; monthly and annual financial result reviews with senior management, including general ledger account reconciliations; comprehensive financial account analyses; various internal and external systems controls including claims processing, accounts payable, and general ledger systems. UnitedHealthcare and Tufts Health Public Plan conduct System and Organization Controls (SOC)-type audits; UnitedHealthcare is compliant with the Sarbanes-Oxley Act; NHPRI is now fully compliant with the Department of Business Regulations Model Audit Rule. Also, NHPRI retains an outside firm to finalize the company’s overall risk assessment, including implementation, and has staff dedicated to ensure on-going MAR compliance.

To further ensure the integrity of the Health Plans’ controls and financial reporting, EOHHS’ contracts with the health plans require that the external auditors, in their annual report of independent auditors, specifically address their review and testing of the health plans’ risk/gain share financial statements and the health plans’ various receivables and/or payables to/from EOHHS, as of December 31 of each year. EOHHS also requires that all financial statements provided to EOHHS be accompanied by an attestation document, signed by an officer or senior administrator of the MCO, attesting to the accuracy and completeness of the financial statements. The reports are utilized to estimate EOHHS’ outstanding liabilities to the Health Plans for purposes of caseload estimating conference and year-end accruals. The above controls and reporting requirements adhered to by the Health Plans give EOHHS confidence in the financial reporting by the Health Plans.

Anticipated Completion Date: ongoing
Contact Person: Katie Aljewicz, Deputy Director of Finance katie.aljewicz@ohhs.ri.gov

SYSTEM PAYOUTS AND MANUAL DISBURSEMENTS BY THE MEDICAID FISCAL AGENT

The Executive Office of Health and Human Services (EOHHS) authorized more than $190 million in disbursements (system payouts and manual payments) and $100 million in system recoupments during fiscal 2020. This financial activity represents transactions outside of the normal claims processing functionality of the Medicaid Management Information System (MMIS). While these types of payments are necessary within Medicaid, the reporting and internal control processes relating to these types of disbursements and recoupments are manual and external to other established control procedures. Such amounts are not easily identified or quantified by the MMIS.

Criteria: Management is responsible for establishing and maintaining internal control over financial reporting to ensure accurate and complete reporting of transactions in accordance with generally accepted accounting principles. Such processes should support the validity and accuracy of all payments made by the fiscal agent, the completeness of reported program activity, and to ensure compliance with federal regulations for allowable cost principles and activities allowed or unallowed.

Condition: The MMIS lacks formalized reporting that details system payouts, manual disbursements, and system recoupments. To the extent that system payouts and recoupments net with current claims processing activity, these transactions result in net cycle activity being posted to the State accounting system which is the basis for the State’s financial and federal reporting functions. When system payouts and recoupments relate to prior period activity, the netting with current period claiming distorts financial reporting. This can negatively impact both financial reporting and federal reporting for the Medicaid and CHIP programs.
EOHHS has several options to initiate non-claims processing financial activity (i.e., system payouts, manual payouts, system recoupments, and payments through the State accounting system). Policies should be formalized to identify the financial transaction type that best aligns with the nature of the transaction. For example, disbursements for prior-year managed care activity should be made by a manual payment that is recorded independently in the State accounting system rather than a system payout that nets the activity against current capitation payment processing. Yet, a recoupment of an advance made in the prior month is more efficiently accomplished through a system recoupment since they relate to the same financial period (quarter or fiscal year). This consideration should involve consultation with the Office of Accounts and Control to ensure proper financial accounting for the transaction.

**Cause:** System payouts and recoupments often net prior period financial activity with current claims processing activity which can result in misstatements to financial and federal reporting. Insufficient system reporting for system payouts and recoupments increases the risk that material transactions are not identified that require reporting as prior period activity on federal reports and for financial reporting.

**Effect:** Errors or omissions in financial reporting and federal noncompliance are possible effects of this control deficiency.

**RECOMMENDATIONS**

2020-005a  Adopt policies that formalize the financial transaction type that best aligns with the nature of the transaction.

2020-005b  Develop comprehensive reporting for system payouts, manual disbursements, and system recoupments to improve the transparency of these transactions processed by the Medicaid fiscal agent.

**Management’s Views and Corrective Actions:**

In response to 2020-005b, EOHHS and the fiscal agent implemented in December 2019 a monthly report recapping all Fiscal Agent Control Notes (FACNs) processed that month. EOHHS Finance also maintains a monthly log of all FACNs it approves, capturing all pertinent data, and reconciles this log with the fiscal agent’s monthly FACN report. Any discrepancy is promptly researched and resolved.

EOHHS will conduct a review of all financial transaction and financial reason codes utilized by the MMIS when processing payments and recoupments. By mid-2021 EOHHS intends to implement “ServiceNow” with their fiscal agent for the purpose of more formally tracking FACN type requests in addition to system issues, incidents, modifications and other types of requests. This tool will eliminate the FACN process as it is defined presently. To the extent that additional codes are needed to clarify the nature of various transactions, EOHHS will work with the fiscal agent to establish and utilize these new codes on a go-forward basis within the new ServiceNow tool.

EOHHS understands that one main concern for the auditors with 2020-005a is that in some instances, EOHHS processes FACNs that involve payment or recoupment for the current fiscal year, and payment or recoupment for a prior fiscal year. This makes it difficult to identify individual components of the transactions, and what type of transactions occurred (e.g., whether it was related to stop loss, capitation, risk share settlement). Netting prior period activity with current activity can also distort both the state and federal financial reporting if it is not identified and adjusted to be reflected in the appropriate year.

EOHHS will begin making prior period (non-current year) settlement claims as off-cycle payments (i.e., separate and apart from its regular scheduled MMIS system payout dates). This will allow General Ledger journal entries to be prepared specific to the prior-period payment where the payment type and timeframe can clearly be identified in the Payment Description field.

Finally, EOHHS has worked to reduce the number of manual transactions, as outlined in the corrective action plans in response to finding 2020-005, and we have also made progress in refining the comprehensive reporting.

**Anticipated Completion Date:** July 1, 2021
Finding 2020-006 (material weakness - repeat finding – 2019-004)

COMPREHENSIVE DOCUMENTATION OF THE STATE’S INTERNAL CONTROL STRUCTURE

Management focus, training and implementation resources have been insufficient to ensure that departments and agencies are assessing and documenting internal control consistent with management’s overall responsibility for the adequacy of the design and operation of internal control. Internal controls safeguard public resources and support accurate financial reporting.

Background: The State’s management has responsibility for the design and operation of internal control. The Committee of Sponsoring Organizations (COSO) has designed a framework for internal control that consists of three categories of objectives – operations, reporting, and compliance – and five components – control environment, control activities, risk assessment, information and communication, and monitoring. The Government Accountability Office’s “Green Book” - Standards for Internal Control in the Federal Government tailors this conceptual framework to the public environment. The “Green Book” is required for federal agencies and is useful to other governments when applying the principles of an internal control framework.

Criteria: An internal control framework, such as COSO and/or the Green Book, provides an overall structure for management to design, document, and monitor its internal control policies and procedures. Both within and outside government, management has responsibility for the adequacy of design and operation of an entity’s control structure.

Condition: While certain control policies and processes have been documented, there is a lack of formalized documentation and comprehensive internal control structure throughout State government that complies with an accepted framework such as COSO and/or the Green Book. Opportunity exists for a coordinated effort to implement the revised internal control framework and to reassess the design of its current control structure (both statewide and at the individual agency level) with emphasis on risk assessment and monitoring - both essential components of internal control. As the State considers implementing a fully integrated ERP system, which will likely include modification of certain processes and related controls, opportunities exist to evaluate and document amended control procedures consistent with the internal control framework.

Cause: Management focus, training and implementation resources have been insufficient to ensure that departments and agencies are adequately documenting their internal control structures inclusive of all elements.

Effect: Control weaknesses could exist and go undetected either through inadequate design or through noncompliance resulting from insufficient monitoring.

RECOMMENDATIONS

2020-006a Commit additional resources to training and implementation materials to ensure that departments and agencies are adequately documenting their internal controls to reflect an understanding of its required elements in accordance with an acceptable framework such as COSO or the Green Book.

2020-006b Implement an internal control assessment and documentation effort to coincide with the implementation of a fully integrated ERP system.

Management’s Views and Corrective Actions:

We will request funds to retain a firm with COSO implementation expertise to assist us in developing and implementing a methodology to document major business process flows and identify the internal controls in each of these major processes. It is expected that this project will span several fiscal years. This initiative should be done in connection with the implementation of the fully integrated ERP system as that project will
bring with it the opportunity to embed numerous internal controls in the software applications themselves. Further, existing training materials will be updated, and training will be conducted again.

**Anticipated Completion Date:** June 30, 2022 (for initial funding decision and training components)

**Contact Person:** Margaret Carlson, Associate Controller
Margaret.Carlson@doa.ri.gov

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**Finding 2020-007**  
(significant deficiency - repeat finding - 2019-005)

**EVALUATION OF CONTROLS OVER FUNCTIONS PERFORMED BY EXTERNAL PARTIES**

The State can continue to improve its consideration of controls over functions performed by external parties by enhancing use and documentation of Service Organization Control (SOC) reports provided by the external parties. These improvements are necessary and consistent with management’s responsibility for the overall adequacy of the design and operation of internal control.

**Background:** SOC reports are provided by service organizations to assure customers/clients that controls are sufficiently designed and in operation over relevant activities. Management of the user entity should use these reports as part of their overall consideration and documentation of the adequacy of the design and operation of internal control.

**Criteria:** Management has responsibility for the adequacy of design and operation of an entity’s control structure including functions performed by external parties.

**Condition:** The State has made progress by training employees and implementing a uniform SOC report assessment tool to document the consideration of controls at its service organizations. Further training and monitoring are needed to ensure all SOC reports are appropriately and consistently evaluated. Additionally, the State must ensure that relevant complimentary user entity (State) controls identified by service organizations are also in place and operating effectively.

When SOC reports identify exceptions, or auditors’ reports on the operation of internal controls are modified due to exceptions, evaluation of such matters must be timely and thorough. For example, one SOC report for an EBT provider highlighted deviations in the control testing which resulted in a qualified opinion regarding the design and effectiveness of certain control procedures at the service organization. Documentation prepared by the State department utilizing the service organization was incomplete regarding the evaluation of the exception and the impact on the State’s overall control procedures.

Continued training is recommended along with monitoring and follow-up with departments and agencies.

**Cause:** The lack of comprehensive documentation and consideration of controls at service organizations that perform critical functions for State government represent a weakness in internal control over financial reporting.

**Effect:** Many functions performed by external parties are material to the State’s overall operations. Deficiencies in the design or operation of controls at service organizations could materially impact the State’s overall controls over financial reporting and compliance.

**RECOMMENDATIONS**

- **2020-007a** Enhance training and monitoring to ensure compliance with newly implemented SOC report evaluation procedures.
- **2020-007b** Ensure that relevant complimentary user entity (State) controls identified by service organizations are also in place and operating effectively.
- **2020-007c** Ensure exceptions and auditor report modifications included in SOC reports are evaluated timely and documented regarding the impact on the State’s overall control procedures.
**Management’s Views and Corrective Actions:**

2020-007a - We agree with this finding. The training presented in 2019 will be updated and enhanced to provide more comprehensive guidance. A SOC Document of Reliance on SOC Report (checklist) has been created to be completed by each of the applicable CFOs and returned to the Office of Accounts and Control along with the SOC Report. The CFO is responsible for the review of the SOC report and the checklist provides Accounts and Controls with a tool to ensure that the entire SOC report has been reviewed by the CFO.

2020-007b - We agree with this finding. Included in the enhanced training for the CFOs, they will be provided information to assist in their review of the complementary user entity (state) controls to ensure that the controls are in place and operating effectively. The Document of Reliance on SOC Report (checklist) provides a section “User Entity Controls” to assist the CFO reviewer in providing that assurance.

2020-007c - We agree with this finding. Included in the enhanced training for the CFOs, will be information to assist in their review of the exceptions and modifications noted in the SOC Reports to ensure they are evaluated in a timely fashion and that proper documentation is provided regarding the impact on the State’s control process. The section of the Document of Reliance on SOC Report (checklist) entitled “Exceptions” will assist the CFO reviewer by providing guidance to ensure they review any exceptions or modifications and how these changes/modifications will impact their organization. The completed checklist will provide the Office of Accounts and Control assurance the CFOs are reviewing the SOC report.

**Anticipated Completion Date:** September 30, 2021

**Contact Person:** Gail LaPoint, Administrator, Financial Management
Gail.LaPoint@doa.ri.gov

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**Finding 2020-008**

**MONITORING RIFANS ACCESS PRIVILEGES AND AGENCY APPROVAL HIERARCHIES**

The State can enhance certain system access controls within the RIFANS statewide accounting system.

**Background:** Authorizing and monitoring access to RIFANS, the State’s centralized accounting system, is a key control over financial reporting. Access roles for all RIFANS users are assigned and controlled through unique passwords. Ensuring access is consistent and appropriate with each individual’s responsibilities is an important control process. Individuals with “Super User” access require specific monitoring procedures due to their unlimited system access and the ability to potentially override established control procedures.

**Criteria:** Controls over system access by users and system administrators is critical to ensure that transactions in RIFANS are properly authorized and recorded for financial reporting purposes.

**Condition:** The State’s lack of adequate monitoring of user and administrator access represents a collective weakness in internal control over financial reporting. There are three distinct, but interrelated areas where the State can improve its monitoring of RIFANS access privileges by implementing reporting functionalities that allow for the periodic review of RIFANS user and administrator access:

- **RIFANS “Super Users”** - Activities of individuals with system administrator or “super user” roles are logged but not reported and reviewed by qualified personnel. These individuals have unlimited access to RIFANS functions and data. Consequently, any RIFANS transactions or activity initiated by system administrators should be monitored. The Division of Information Technology’s (DoIT) policies and procedures require the activities of privileged users (system administrators) be logged by the system and reviewed for appropriateness by assigned personnel.

- **Agency Hierarchies** - Access roles for all RIFANS users are controlled through unique passwords. These roles, which are assigned based on job functions and responsibilities, permit access to various system capabilities.
Agency hierarchies allow specific transaction types and dollar authorization limits. Other transaction-specific authorization controls are managed through workflow paths within RIFANS. The Office of Accounts and Control (Accounts and Control) is responsible for the design and control of system access by RIFANS users. This “blueprint” of the RIFANS control structure is periodically documented through hierarchies detailing access and approval flows for each department or agency and system workflows documenting the routing of certain types of transactions.

- **RIFANS Delegated Authority** - RIFANS users may delegate their authority to other users in certain situations (e.g., vacation rules). The State implemented a policy that restricts employees from delegating their authority to others with a lower level of authority and requiring notification of the delegation to Accounts and Control in certain circumstances.

The State created a report designed to monitor changes to the agency hierarchies, authorization thresholds, and other select data fields; however, there were no procedures in place requiring periodic review of the report by DoIT IT Security personnel who possess sufficient knowledge of the IT security protocols to monitor “super user” activity. Further refinements to the report are required to capture all “super user” activity on the system. For example, there are no existing system-enforced policies restricting “super users” from effecting changes to their own level of access or authorization levels.

**Cause:** The State did not have sufficient reporting to allow for comprehensive “super user” access monitoring during fiscal 2020. Using the current accounting system, the tracking of all changes made by “super users” may exceed current capabilities. The State should consider incorporating the need for adequate audit tracking of super user activities when completing its strategic ERP plan.

While the use of reports designed to identify and review changes made to RIFANS access was improved during fiscal 2020, additional efforts are required to ensure that system access is designed appropriately, properly authorized and documented, and is implemented in accordance with that design.

**Effect:** Potential for unauthorized transactions being recorded in RIFANS.

**RECOMMENDATIONS**

- **2020-008a** Enhance current procedures for reviewing the activities of “super users” (including system administrators) on a scheduled basis to ensure that additions, modifications, and deletions initiated by them are appropriate. Assess the potential for systemic changes when completing the State’s strategic plan for designing and implementing a fully integrated ERP system.

- **2020-008b** Implement policies regarding “super users” modification of their own access and authorization.

- **2020-008c** Improve controls over RIFANS access by ensuring consistent use of the reporting functions and by modifying existing procedures to ensure that all changes are being properly authorized and documented and reflected accurately in agency hierarchies and system workflows.

**Management’s Views and Corrective Actions:**

- **2020-008a** - Procedures were implemented in FY 2021 to address this issue by Accounts and Control and DOIT. In FY22 DOIT is implementing Data Guardian. This tool is currently being deployed to systems with PII data. There is available integration into Oracle for monitoring of data elements. DOIT needs to confirm the current version of its operating system and Oracle E-Business Suite to be compatible with Data Guardian. Having this in place along with procedures in place in FY 2021 will provide further review of super user access.

  **Anticipated Completion Date:** Dependent on required upgrades. Estimated 11/30/2021.

- **2020-008b** - A procedure was implemented in FY 2021 that super users need to have a ticket approved by accounts and control before access is modified.
State of Rhode Island - Fiscal 2020 – Financial Statement Findings

Anticipated Completion Date: Completed in FY21

2020-008c – The Office of Accounts and Control is currently reviewing the processes and procedures for RIFANS access and maintenance of agency hierarchies. Existing internal control weaknesses have been identified and management is in the process of implementing new procedures which will strengthen internal controls.


Contact Persons: Alan Dias, Assistant Director Information Technology Alan.Dias@doit.ri.gov
Peter Keenan, State Controller Peter.Keenan@doa.ri.gov

Finding 2020-009 (significant deficiency – repeat finding – 2019-011)

COMPREHENSIVE GENERAL LEDGER CONTROLS OVER RECEIVABLES

Statewide accounting controls over receivables should be enhanced.

Background: Revenues are collected at many points throughout the State and, in many instances, due to volume and complexity (e.g., tax revenues), independent systems must be maintained to control and account for those revenues and related receivables.

Currently, general ledger balances are adjusted at fiscal year-end to match the summary balances reported by the various revenue collecting agencies. Long-term receivables, which are included in the State’s government-wide financial statements, are typically recorded and then reversed each year without a “permanent” general ledger or subsidiary ledger detail record of such amounts.

The lack of an integrated revenue and receivables functionality within the RIFANS accounting system requires that receipts/revenue be recorded via journal entry transactions (directly to the general ledger). Typically, receipts/revenue would be recorded in a separate module with expanded functionality that would interface with and post information to the general ledger.

The Office of Accounts and Control has added certain receivable categories to an existing revenue/receivables module that is part of RIFANS. However, since that module is more designed to track receivables on a unique customer basis, it does not easily match the need to control receivables within the State’s various subsidiary systems (e.g., tax receivables). Other options need to be considered to meet the State’s comprehensive control objectives for receivables, given the complicated and decentralized nature of revenue collection points throughout the State.

The Central Collections Unit (CCU) was created within the Department of Revenue to assist State agencies in collecting delinquent debts owed to the State. Debt is referred to the CCU for collection, but receivable balances and revenue ultimately remain with the originating agency.

Criteria: Controls are enhanced when there are effective general ledger controls over all receivable balances with periodic reconciliation to detailed subsidiary accounts receivable systems. Additions and reductions (receipts) of receivables should be recorded in aggregate at the general ledger level with the detailed recording at the customer/taxpayer level within the various subsidiary receivable systems.

Condition: The State must enhance its comprehensive general ledger controls over amounts owed to the State. Receivable balances are generally maintained by the revenue-collecting department or agency (e.g., Division of Taxation, Courts, and Department of Environmental Management). Summary balances are only reported annually to the Office of Accounts and Control for inclusion in the State’s financial statements. The effectiveness of receivable recording at year-end is dependent upon agencies fully reporting balances to the Office of Accounts and Control and
procedures performed by Accounts and Control to identify possible omissions. This manual process provides a level of compensating control but is susceptible to omission. Accounting and monitoring controls over the State’s receivables in aggregate are limited.

Controls can also be enhanced over the newly formed CCU. Certain balances referred for collection to the CCU have not been reflected within the State’s general ledger or financial statements as receivables. Procedures should be implemented to track delinquent receivables pursued by the CCU and match them to the appropriate RIFANS account to facilitate consistent, complete recording on the State’s general ledger.

The State implemented statewide COVID-19 testing in March 2020 in response to the public health emergency. Once implemented, the State began to seek reimbursement from health insurers for covered individuals. These reimbursement efforts have been identified and tracked manually. The State needs to improve controls over these receivables to ensure the accounting is appropriate and recoveries are credited to the original funding source (e.g., federal grants). Receivables for amounts billed to insurers are not currently recorded in the State’s accounting system.

**Cause:** Inadequate general ledger controls over accounts receivable.

**Effect:** Potential for misstatement or omission of accounts receivable and related revenue in the State’s financial statements.

**RECOMMENDATIONS**

2020-009a Explore options to enhance statewide general ledger controls over receivables. Ensure all balances referred to the CCU for collection have been reflected in the RIFANS general ledger and financial statements.

2020-009b Improve accounting controls over COVID-19 testing receivables to ensure completeness of billing and collections and appropriate crediting to the original funding source, where applicable.

**Management’s Views and Corrective Actions:**

The requirements being developed for the new integrated ERP system will include one for a receivable module which will be used to account for all non-tax related receivables. This will significantly improve controls over these receivables.

**Anticipated Completion Date:** September 30, 2021 (For requirements document)

**Contact Person:** Ben Quattrucci, Financial Reporting Manager

benjamin.quattrucci@doa.ri.gov

**Finding 2020-010** (material weakness – repeat finding – 2019-013)

**CONTROLS OVER FEDERAL PROGRAM FINANCIAL ACTIVITY**

The State can improve controls over recording federal revenue to ensure (1) amounts are consistent with the limitations of grant awards from the federal government and (2) claimed expenditures on federal reports are consistent with amounts recorded in the State’s accounting system.

**Background:** Federal programs represented 40% of fiscal 2020 General Fund expenditures. Financial reporting risks include categorizing expenditures as federally reimbursable when grant funds have either been exhausted or the expenditures do not meet the specific program limitations. Further, the State can improve its overall centralized monitoring of federal program operations to ensure compliance with federal requirements.
Some federal grants are open-ended entitlement programs where the federal government will reimburse the State for all allowable costs incurred under the program. Other federal grants are limited by a specific award amount and grant period. These grant periods are often for the federal fiscal year and are not aligned with the State’s fiscal year.

**Criteria:** Federal revenue and expenditures recorded by the State must be consistent with the limitations of grant awards from the federal government and claimed expenditures on federal reports must be consistent with amounts recorded in the State’s accounting system.

**Condition:** Knowledge of grant requirements, spending authorizations, and limitations on reimbursable expenditures all rests with departmental managers who administer the federal grant programs. The Office of Accounts and Control, in preparing the State’s financial statements, relies primarily on the coding of expenditures (by funding source – federal) within the RIFANS accounting system. All expenditures recorded in federal accounts are considered reimbursable from the federal government and federal revenue is recorded to match those expenditures. From an overall statewide perspective, controls over financial reporting are ineffective to ensure that all federal expenditures are reimbursable and federal revenue is recognized appropriately.

The Office of Accounts and Control requires departments to complete a Federal Grants Information Schedule (FGIS) to reconcile RIFANS program activity with amounts drawn and claimed on federal reports. The FGIS process is not effective and there is no other statewide control measure to ensure that grant expenditures do not exceed available award authority.

The State’s RIFANS accounting system does not meet the State’s needs in three important and interrelated areas – time reporting/payroll, grants management, and cost allocation – all functionalities that are integral to management of federal programs. These functions are currently performed independent of RIFANS and generally through multiple departmental systems - most of which are duplicative and utilize old and sometimes unsupported technology.

**Cause:** Sufficient controls have not been implemented within the statewide accounting system to ensure amounts are consistent with the limitations of grant awards from the federal government and claimed expenditures on federal reports are consistent with amounts recorded in the State’s accounting system; however, the current FGIS process is ineffective.

Enhanced statewide accounting functionalities that support time reporting/payroll, grants management, and cost allocation are being contemplated through the strategic plan initiative which recognizes the need for a grants management component within the overall planned ERP implementation.

**Effect:** Federal revenue could be overstated and not detected for financial reporting purposes. The share of program costs allocable to funding sources (e.g., general revenue vs. federal) could be misstated.

**RECOMMENDATION**

2020-010 Implement controls to ensure that the allocable share of federal program expenditures is consistent with grant award limitations. Reassess the current FGIS process with the goal of enhancing compliance and effectiveness.

**Management’s Views and Corrective Actions:**

*We agree. The ERP strategic plan that was recently finalized includes both a Grants Management Module and a Time & Attendance Module. These modules, along with the other components of the ERP, will address the control weaknesses discussed above.*

**Anticipated Completion Date:** June 30, 2022 for Grants Management Module and June 30, 2023 for Time & Attendance Module.

**Contact Person:** Peter Keenan, State Controller
Peter.Keenan@doa.ri.gov
MONITORING RESPONSIBILITY FOR FUNDS ON DEPOSIT WITH FISCAL AGENTS

Responsibility for monitoring the investment activity and other compliance aspects of funds on deposit with a fiscal agent (trustee) should be vested with the Office of the General Treasurer.

**Background:** On June 30, 2020, $369 million was on deposit with fiscal agents (trustees). These amounts generally are bond or certificate of participation proceeds which are invested pending disbursement for projects. At June 30, 2020, investments included government debt securities, commercial paper, certificates of deposit and money market funds.

**Criteria:** The safety and liquidity of investments made from undisbursed debt proceeds, as well as compliance with permitted investment limitations, should be actively monitored. The Office of the General Treasurer has similar responsibilities for other State funds and is the appropriate choice to provide appropriate oversight of these balances.

**Condition:** Responsibility among various State agencies for monitoring investment activity for funds on deposit with fiscal agents remains fragmented without sufficient oversight and monitoring. Efforts to improve oversight and monitoring by the Office of the General Treasurer are incomplete and require additional effort. The nature and timing of specific monitoring procedures can be better defined and coordinated.

Cash reserves totaling $200 million of the $369 million balance on June 30, 2020 were uninsured and uncollateralized.

**Cause:** The Office of the General Treasurer generally has responsibility for investment of State funds. Because these amounts are held by trustees and invested independently, they have not historically been included within the oversight of the Office of the General Treasurer and no other State agency has been designated specific responsibility. During fiscal 2020, the Office of the General Treasurer began discussion of required procedures, but oversight was not fully implemented.

**Effect:** Funds held by fiscal agents are insufficiently monitored to ensure safety, liquidity and compliance with debt related covenants.

**RECOMMENDATION**

2020-011 Complete implementation of effective oversight and monitoring responsibilities for funds on deposit with fiscal agents.

**Management’s Views and Corrective Actions:**

The Office of the General Treasurer agrees that our office should assume this duty. We worked to identify all funds on deposit with fiscal agents in FY2019 and began basic quarterly monitoring to ensure compliance with debt covenants. We are in the process of designing a more robust oversight and monitoring program to implement in FY21.

**Anticipated Completion Date:** June 30, 2021

**Contact Person:** Andrew Junkin, Chief Investment Officer
Andrew.Junkin@treasury.ri.gov
DIVISION OF INFORMATION TECHNOLOGY – DISASTER RECOVERY TESTING

The State should formalize identification of major systems, standardize application testing, and incorporate business continuity planning within its overall disaster recovery testing.

Background: Periodic tests of the disaster recovery plan are a vital component of an overall business continuity plan to increase the likelihood that critical systems can be restored should a disaster disable or suspend operations at the State’s data center. DoIT has a designated disaster recovery facility in New Jersey (operated by a vendor).

Criteria: Industry best practices stipulate that disaster recovery testing be performed twice a year to accommodate the ever-changing systems environment. The State should perform a full disaster recovery test at least annually. Also, off-site storage of backups should be geographically diverse enough to successfully recover from a regional disaster.

Condition: The State paused tests of its disaster recovery plan during fiscal 2020 due to COVID-19. A list of major systems has been developed, but the restoration priority needs to be formalized and communicated to State agencies. In addition, further progress is needed to test all critical functionality of major systems and their applications. During the 2019 test, the system and database were recovered for critical applications, however, the State did not fully validate the application functionality.

Cause: While major systems to be recovered have been identified, prioritization has not been formalized. Sufficient time has not been allotted to test all systems thoroughly. In addition, a repeatable level of application testing has not been formally established nor has business continuity planning been incorporated into disaster recovery testing.

Effect: Incomplete disaster recovery testing reduces the assurance that all mission critical systems can be restored, should a disaster disable or suspend operations.

RECOMMENDATIONS

2020-012a Formalize and communicate the restoration priority of major applications and communicate the priority order with the affected State agencies within disaster recovery tests at the State’s designated disaster recovery site.

2020-012b Establish a repeatable level of application testing and incorporate business continuity planning within periodic disaster recovery testing.

Management’s Views and Corrective Actions:

2020-012a:
• The existing enterprise DR solution that all DOIT supported agencies leverage will be completely replaced by the end of the calendar year 2021. This past year the infrastructure teams worked with the individual agency assigned IT teams to identify the critical applications and map them to the appropriately identified recovery infrastructure.

• The new DR solution will have replication capability for 70% of the total VM environment to address our most critical production applications thus eliminating the effective need for prioritization, as all critical systems identified will be available for use by each individual agency assigned IT team in a greatly shortened time frame compared with the current technology platform.

• Aligned with the new DR solution completion time frame, the DOIT Application Development Team leadership will identify which agency stacks should come up in order of priority after the Enterprise CORE services.

2020-012b: DOIT performs an annual DR Testing Procedure which was delayed due to COVID last year but then performed in October of 2020. From the data gathered there DOIT, in conjunction with the Agency IT Manager from each unit, will create a template for high level application testing across all participating agencies, and they will keep those individual test plans updated as appropriate and stored with the rest of
Finding 2020-013

DIVISION OF INFORMATION TECHNOLOGY – PROGRAM CHANGE CONTROLS

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.

**Background:** Program change controls are a critical component of any IT control environment, which ensures that only authorized changes are made to programs (after adequate and sufficient user acceptance testing) before being placed into a production environment. Additionally, program change control procedures prevent and detect unauthorized program modifications from being made.

Almost all custom-developed computer applications require changes and/or updates throughout their production lifecycles. Consequently, these customized, home-grown applications require a formalized change management system to ensure that only authorized changes are made.

While some agencies have formally implemented program change controls, a standardized statewide approach has not been implemented.

**Criteria:** The State’s change management process should be standardized so that all movement of code, modifications, testing, acceptance, and implementation provide management with a tracking history and record of approvals. This leads to consistent outcomes, efficient use of resources, auditability, and enhanced integrity of the application systems, which flow through the process. Automated tools help control this process and make the process consistent, predictable, repeatable and aids in the reduction of “human error” in the process.

DoIT should develop procedural guidance that details the correct use of change management software and mandated internal control practices and procedures, thus ensuring a documented, monitored, auditable, and repeatable process.

**Condition:** The State lacks a uniform enterprise-wide program change control management process for the various IT applications operating within State government. This led to inconsistent methods, as well as noncompliance and circumvention of DoIT’s change control policy and procedures. In a number of instances, automated change control system procedures were lacking to substantiate that only authorized and proper changes had been implemented.

**Cause:** Various methods are used to control program change management which rely mostly upon manual and semi-automated procedures that incorporate emails, memorandums and other paper-based forms to document application changes. In response to prior audit recommendations made since fiscal 2007, DoIT has attempted to implement change control software.

**Effect:** A lack of a uniform enterprise-wide program change control management process increases the risk that unauthorized or inappropriate changes could be made to IT applications without detection.

**RECOMMENDATIONS**

2020-013a Develop and implement procedures detailing specific requirements for program change control and disseminate and train DoIT support staff in its proper execution.
2020-013b Determine the appropriate combination of operational, procedural and/or technical adjustments required to use change management software to result in adequate program change control for the entire enterprise.

Management’s Views and Corrective Actions:

2020-13a - Based upon the success of our pilot and evaluation of a cloud-based change management system as noted in 2020-13b we will address and develop the requirements for and train necessary DOIT support staff.

Anticipated Completion Date: Dependent on 2020-13b

2020-13b - DOIT is currently evaluating a change management/version control software environment for use in the enterprise. Department of Transportation is piloting Azure DevOps for version control and other features. Based on the evaluation, we will make a recommendation for use as our enterprise change management and version control. This will be implemented for existing code base and future code base where system replacements are not eminent. When implementing SAS solutions to replace older applications those applications will undergo the best practice as provided by the vendor for change management.

Anticipated Completion Date: Pilot Completion April 30, 2021

Contact Person: Alan Dias, Assistant Director Information Technology Alan.Dias@doit.ri.gov

Finding 2020-014 (significant deficiency – repeat finding – 2019-021)

DIVISION OF INFORMATION TECHNOLOGY – COMPREHENSIVE INFORMATION SYSTEMS SECURITY POLICIES AND PROCEDURES AND PERIODIC RISK ASSESSMENTS

The State can enhance its enterprise-wide security policies and procedures and communication of these policies and procedures with State agencies. Additionally, the State can enhance its ongoing security posture by periodically performing risk assessments to identify if mission critical systems comply with IT policies and procedures.

Background: The Division of Information Technology (DoIT) within the Department of Administration (DOA) has responsibility for the State’s varied and complex information systems. This includes ensuring that appropriate security measures are operational over each system and the State’s information networks. Information security is critically important to ensure that information technology dependent operations continue uninterrupted, and that sensitive data accumulated within State operations remains secure with access appropriately controlled.

Periodic comprehensive technology risk assessments are key to uncovering underlying vulnerabilities in the environment as well as providing guidance on where to best spend limited assets to reduce risk. Recent cybersecurity attacks demonstrate the ongoing need to periodically assess the technology infrastructure for threats. During our audit we focused on the following mission critical systems due to their impact on the State’s financial reporting: RIFANS, STAARS, RIBridges, MMIS, DMV- RIMS, and DLT benefit and revenue systems.

Criteria: Risk assessment policies and procedures must be documented (National Institute of Standards and Technology – NIST RA-1). Risk assessments should be performed every three years or whenever there are significant changes (e.g., new system implementations) (NIST RA-3).

The oversight and management of the State’s information security program relies upon the implementation of DoIT’s comprehensive information systems security plan, which includes detailed policies and procedures that are designed to safeguard all the information contained within the State’s critical systems.

Assessments of compliance to IT policies and procedures for all critical IT applications should be performed on a periodic basis as part of the risk assessment.
IT best practices require updates and patches be implemented timely as recommended by software vendors to ensure continued security and operational integrity.

**Condition:** The State has updated and created new policies and procedures for its critical information systems; however, it has lagged in approving, communicating, and implementing these policies. Further, the State has not implemented a practice of conducting security risk assessments on a cyclical basis to determine whether its IT systems comply with State IT security policies and procedures.

Due to the number and complexity of systems within State government, a risk-based approach should be employed where those systems deemed most critical, or most at risk, are prioritized.

The State should make continued use of external system assessments and reviews to complement on-going risk assessment monitoring. When State systems are operated by external parties or interface with external processing entities, these entities often provide Service Organization Controls (SOC) reports, which describe key controls within the application or organization and testing of the operational effectiveness of those controls. These reports should be accumulated and reviewed within DoIT as part of a risk-based approach to assessing and ensuring IT security compliance. Any user-entity controls identified in the SOC reports should be considered, evaluated and documented. This may assist in expanding coverage of the State’s many systems considering the minimal resources allocated to this function.

The State has insufficient resources allocated to timely evaluate and apply patches and updates to ensure continued security and operational integrity. As a result, updates and patches are not always implemented in a timely manner.

**Cause:** The State maintains IT security policies and procedures; however, they are not regularly updated and appropriately communicated with State agencies.

Policy and practice to perform comprehensive information security risk assessments is improving but can be further enhanced.

The State has not devoted sufficient resources to maintaining certain mission critical systems.

**Effect:** Critical systems may be exposed to security vulnerabilities and cyber-attacks when comprehensive information security risk assessments are not performed routinely. This could impact the State’s ability to ensure continued operation of mission critical systems.

**RECOMMENDATIONS**

2020-014a Continue to update IT security policies and procedures to ensure such policies and procedures conform to current standards and address all critical systems security vulnerabilities with particular emphasis on keeping patches and versioning current to minimize cybersecurity risk.

2020-014b Perform risk assessments at least once every three years with the results documented and communicated to management for action. Contract for the performance of IT security compliance reviews and make use of available Service Organization Control reports to extend IT security monitoring of critical systems.

2020-014c Prepare a plan that prioritizes significant system security risks with the goal of achieving compliance with DoIT’s formalized system security standards for all significant State systems.

**Management’s Views and Corrective Actions:**

2020-14a - All DoIT polices aligning with NIST 800-53 have been updated and will undergo review and revision on an annual basis, and as needed. They can be found on the Enterprise Security Share Point Site, in the 'Current Policies’ folder: https://rigov.sharepoint.com/sites/etss-io-security

A comprehensive enterprise System Security Plan (SSP) is in development for identification of the procedures for implementation of the enterprise inherited security controls as defined within the published policies.
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**Anticipated Completion Date:** June 2021

2020-014b - With the DoIT adoption of the NIST Risk Management Framework (RMF), DoIT is building a system(s) risk assessment program. This assessment process will be executed in a cyclical fashion; utilizing inputs from audits (internal, and external) and State hosted vulnerability and risk measuring technology and processes. External assessments will be scheduled and conducted on State critical systems.

**Anticipated Completion Date:** October 2021

2020-014c - The categorization of systems through the implementation of the NIST RMF will provide the ability to prioritize mitigation of identified security risks. A formalized running risk register will be maintained at the enterprise level, and will be created for all assessed systems; with plans of actions and milestones (POAM’s) and corrective action plan’s (CAP’s) developed for each system after the initial, and each recurring system assessment. The completion of this plan is dependent upon the completion of 2020-14b.

**Anticipated Completion Date:** December 2021

**Contact Person:** Brian Tardiff, CISO  
brian.tardiff@doit.ri.gov

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**Finding 2020-015 (significant deficiency – repeat finding – 2019-024)**

**DIVISION OF TAXATION – CONTROLS OVER COUNTER TAX COLLECTIONS**

Controls should be improved over the counter tax collections accepted at the Division of Taxation by upgrading the cashiering technology and integrating that functionality into the Division’s STAARS system.

**Background:** The vast majority of tax payments are received electronically or through mail payments, however, some taxpayers make payments in person at the Division of Taxation. Such payments totaled approximately $64.4 million in fiscal 2020. A cashiering application was internally developed more than a decade ago that lacks appropriate information technology controls. Additionally, the cashiering application is not integrated with the Division’s STAARS system.

**Criteria:** Adequate application controls must be in place to ensure taxpayer payments are properly recorded and identifiable to the individual employee processing the transaction.

**Condition:** The cashiering application lacks an appropriate audit trail to identify the employee performing the transaction, sufficient password access controls, and data back-up procedures. The system is not integrated with STAARS. A manual process is required to create the transaction record so it can be scanned and processed to post to the taxpayer’s account.

**Cause:** This results from outdated technology and the lack of integration and upgrade upon implementation of the STAARS system.

**Effect:** Controls over tax collections made in person at the Division of Taxation are weakened.

**RECOMMENDATION**

2020-015 Complete the planned application implementation and related technology upgrades used to process counter payments at the Division of Taxation and ensure the cashiering application is integrated with the Division’s STAARS system.
Management’s Views and Corrective Actions:

The Division of Taxation agrees with this recommendation and continues to actively work on addressing this finding. Upon detailed review of the public technology solutions available pursuant to the procurement process and a determination that the technology solution would not meet the needs of the agency, the Division of Taxation conducted an internal new requirements gap analysis, created a high-level design to integrate cashiering functions with STAARS (including an audit trail), and is in the process of implementing that design. Additionally, the Division of Taxation is implementing the shifting of certain cashier deposits to the high-volume scanner deposit process, which will reduce the amount and number of deposits made through the cashier.

Anticipated Completion Date: June 30, 2022

Contact Persons: Neena S. Savage, Tax Administrator neena.savage@tax.ri.gov
Rahul Sarathy, Chief of Examination rahul.sarathy@tax.ri.gov
Daniel Clemence, Chief Revenue Agent Daniel.Clemence@tax.ri.gov
Kristin Cipriano, Chief of Tax Processing Services Kristin.Cipriano@tax.ri.gov


DIVISION OF MOTOR VEHICLES - REVENUES COLLECTED FOR USE WITHIN THE INTERMODAL SURFACE TRANSPORTATION (IST) FUND

Controls can be improved over the recording of license, registration and surcharge fees collected by the Division of Motor Vehicles (DMV) and deposited in the IST Fund.

Background: The DMV collected and remitted revenues totaling $75.3 million of taxes and $23.9 million of licenses, fines, sales, and services revenue for recording in the IST Fund during fiscal 2020.

Criteria: DMV must have controls in place to ensure the completeness of revenue reflected within the IST Fund. RI General Law 39-18.1 designates certain fees to be deposited in the IST Fund for transportation purposes.

Condition: DMV lacks effective controls to ensure that all revenues collected by the DMV for deposit within the IST Fund have been recorded. RIDOT should have procedures in place to provide reasonable assurance that the appropriate fees have been earmarked for the IST Fund and have been received and recorded as revenue. This should include documentation of the fee structure identified by RI General Law Chapter 39-18.1, the surcharge amount being applied to each DMV transactions code, and how the DMV computer system is programmed to identify such amounts for the IST Fund. RIDOT and the DMV should periodically assess the reasonableness of the actual revenue recognized for recording in the IST Fund. We identified the following control deficiencies:

- There is no monthly or yearly reconciliation performed between RIFANS and the Rhode Island Modernization System – (RIMS) to ensure that RIMS data supports the revenue recorded in RIFANS.
- There is no “cross-walk” of the fee structure identified by RI General Law for licenses, registrations, surcharges, etc. and how the DMV computer system is programmed to identify such amounts. Changes to the General Laws affecting fees should be documented to ensure RIMS programming changes are appropriate and consistent with the law.
- Overages/Shortages are not tracked separately in RIFANS but are netted against registration fee revenue. A RIFANS account number should be created to track these separately.
Manual write offs are not recorded in RIMS; they are maintained outside of the system. Manual write offs should be recorded within RIMS to maintain a log of the adjustments and to facilitate RIMS/RIFANS reconciliation.

Deposit date within the RIMS system is pre-populated – the date should reflect the actual deposit date to allow matching RIMS activity to RIFANS receipt entries.

**Cause:** The DMV’s focus has been on successful system implementation, while using the system for enhanced monitoring of compliance with statutory revenue requirements and enhancing the control environment has not been fully explored.

**Effect:** Controls to ensure the completeness of the DMV revenues earmarked for transportation purposes within the IST Fund are ineffective.

**RECOMMENDATIONS**

2020-016a Strengthen and document control procedures over the fees collected by the Division of Motor Vehicles (DMV) and transferred to RIDOT to ensure compliance with RI General Law Chapter 39-18.1. Implement monitoring procedures to assess the reasonableness of revenue amounts collected by the DMV for deposit in the IST Fund.

2020-016b Perform a reconciliation between RIFANS and RIMS on a monthly and annual basis to ensure the data in RIMS supports the revenue recorded in RIFANS.

2020-016c Establish a process and control structure to document the DMV’s review of the General Laws related to changes in its fee structure and ensure any changes are properly made to RIMS and any relevant excel files used to support the recording of revenue into RIFANS.

2020-016d Establish new accounts to record overages and shortages. Record the actual deposit date in the RIMS deposit date field.

**Management’s Views and Corrective Actions:**

2020-016a/b - The DMV agrees that a periodic reconciliation of the funds transferred to the DOT is needed and will work to reconcile the funds transferred on a semi-annual and annual basis. We are working to reconcile for the period(s) of July 1, 2020 thru December 31, 2020.

2020-016c - The DMV legal counsel reviews all legislation and identifies the key people responsible for implementing it. The legislation is then emailed to key personnel for review and implementation, creating an email chain. The IT team then logs all work and testing into ALM Octane. The DMV provided the Auditor General’s office documentation in December 2020.

2020-016d - The DMV started utilizing the Overtures and Shortages account to record all manual adjustment for errors such as checks written incorrectly. All manual adjustments for user and customer errors are debited from the Overtures/Shortages account. For example, if a check is written incorrectly, we debit the Overtures/Shortages account and contact the customer for new payment. When new payment is received, we then credit the Overtures/Shortages account.

**Anticipated Completion Date:** We started utilizing the Overtures/Shortages account on July 1, 2020. We are working to complete the first reconciliation of RIMS to RIFANS.

**Contact Persons:** Paul Dombrowski  Paul.Dombrowski@dmv.ri.gov  
Brad Booth  Bradford.Booth@dmv.ri.gov
DIVISION OF MOTOR VEHICLES – SYSTEM SECURITY PLAN – RIMS

The Division’s system security approach can be further improved by including additional critical system security requirements.

Criteria: A strong and well-designed information security program is essential for protecting an organization’s communications, systems, and assets from both internal and external threats. Per NIST 800-53, PM-2, “The organization appoints a senior information security officer with the mission and resources to coordinate, develop, implement, and maintain an organization-wide information security program."

Per NIST SP800-18, “The purpose of the system security plan is to provide an overview of the security requirements of the system and describe the controls in place or planned for meeting those requirements. The system security plan also delineates responsibilities and expected behavior of all individuals who access the system.”

A data inventory is essential for identifying and tracking an organization’s financial data, intellectual property as well as other sensitive data such as personally identifiable information, in addition to helping organizations apply required access controls and security safeguards such as database logging and monitoring.

Proper Access Management is essential to both protect and maintain the integrity of the DMV data stored within the RIMS system. Part of this function is to ensure the timely adjustment of access privileges or removal of system access altogether for RIMS users who either transfer or terminate employment with the DMV.

Condition: A system security plan was adopted in fiscal 2020. However, additional steps are needed to provide a comprehensive approach to address critical system security requirements which include:

- assigning a senior information security officer;
- maintaining a sensitive data inventory for the DMV RIMS database;
- logging and monitoring the database for access to sensitive data; and
- implementing formal incident response training (such as handling a data breach) for employees.

An analysis of 2,073 RIMS users determined that four users did not have their access removed in a timely manner after departing. DMV administration indicated that they perform an annual sweep for access that should be removed; however, an annual review is insufficient to appropriately limit the risk of unauthorized access.

Cause: Additional focus is needed on the key elements of a well-designed information security program.

Effect: The overall information security program is weakened in the absence of a senior information security officer. The lack of a sensitive data inventory leaves data susceptible to unauthorized access, theft, and loss. Understanding the type of data collected, where it is held, whom has access, and how it is transferred is a critical component of data privacy and data security programs. In the event of a data breach, the organization would not be able to quickly and accurately identify which data was accessed and/or lost. Additionally, if data is not properly classified, inventoried, and stored, unauthorized users within the organization may be able to access sensitive/confidential data. Lastly, a sensitive data inventory is necessary to drive the use of database level audit logging and alerting in order to keep the amount of logging data needed for review and alerting manageable.

Formal Incident Response training is essential so that all staff are clear on their roles and the steps to be taken in the event of an IT security incident (e.g. data breach).

RECOMMENDATIONS

2020-017a Establish a senior information security officer function to manage security oversight.

2020-017b Develop a sensitive data inventory for the RIMS system to identify sensitive data elements needing greater protection.
2020-017c Database logging and monitoring should be implemented for access to sensitive data in the RIMS database.

2020-017d Conduct formal incident response training for DMV staff.

2020-017e Enhance controls and timeframes to ensure prompt termination of system access when employees leave or change functions. Document timely reviews of access privileges.

Management’s Views and Corrective Actions:

2020-017a - Information security is a shared responsibility model, with the AIM serving as the agency information security officer for agency systems and applications. In this model, the AIM is responsible for the implementation of the enterprise security program within the agency, enforcing policies and standards for compliance.

Anticipated Completion Date: June 30, 2021

2020-017b - Sensitive data and systems inventory will be conducted jointly with the DoIT enterprise team through the documentation of systems within System Security Plans (SSP). Additionally, technology such as database protection (Guardium) will assist in this line of effort.

Anticipated Completion Date: July 31, 2021

2020-017c - Access to sensitive data and systems inventory will be monitored jointly with the DoIT enterprise team through the documentation of systems within System Security Plans (SSP). Additionally, technology such as database protection (Guardium) will assist in this line of effort.

Anticipated Completion Date: July 31, 2021

2020-017d - Incident response process and management is actively executed with the enterprise incident response plan and program. DMV IT staff are trained and participate in real world incident response frequently.

Anticipated Completion Date: August 31, 2021

2020-017e - Systems and access change management process are being implemented at the enterprise level. The full implementation of single sign on across the enterprise will ensure the timely removal and provisioning of access to systems. Additionally, an enterprise privileged access management system is in the process of implementation that will ensure the principle of least privilege is adhered to, with access actively monitored.

Anticipated Completion Date: June 30, 2021

Contact Person: Tim McCarthy, DOIT Tim.McCarthy@doit.ri.gov

Finding 2020-018 (significant deficiency - repeat finding - 2019-028)

INTERMODAL SURFACE TRANSPORTATION FUND – FINANCIAL REPORTING

Controls can be enhanced over financial reporting to ensure consistent and accurate reporting of IST Fund activity in accordance with generally accepted accounting principles.

Background: The Intermodal Surface Transportation (IST) Fund, a special revenue fund, includes financial reporting for transportation related activities of the State, including the highway construction programs, the State’s Grant Anticipation Revenue Vehicle (GARVEE) and Motor Fuel bond proceeds (for specific highway construction related projects), various license and registration fees, toll revenues, and other revenues designated for transportation...
purposes. Financial reporting for the IST Fund is generated through RIFANS, the State’s accounting system, however, RIDOT utilizes its financial management and construction management systems for significant amounts of data utilized during the fiscal close. The use of multiple systems complicates financial reporting for the IST Fund.

Criteria: Controls over the preparation of financial statements should ensure consistent and accurate reporting of fund activity in accordance with generally accepted accounting principles. Additionally, fund balance components are to be presented in accordance with generally accepted accounting principles (GASB codification section 1800 paragraphs 177 and 179) reflecting any restrictions on use or commitments by management. Classification of fund balance components, particularly within the IST Fund, demonstrates amounts available to support the transportation programs consistent with any limitations or restrictions on use.

Condition: We identified several misstatements in the IST Fund financial statements that are indicative of control deficiencies over financial reporting. Misstatements related to the following issues:

- Misclassifications of various fund balance categories.
- Numerous accounts payable that were not recorded at fiscal year-end. We requested RIDOT to perform additional review to identify additional payables. RIDOT discovered a programming error in its accounts payable report which caused payables to be understated by $26.5 million.
- Other misstatements relating to year-end fiscal closing procedures.

All misstatements noted were corrected in the financial statements when brought to the attention of management.

Cause: Financial reporting for the IST Fund grows in complexity as additional funding sources are added to support the State’s transportation program. Certain distinct funding sources are maintained in separate funds; however, for financial reporting purposes all the transportation related funds are combined. Although combined for financial reporting purposes, each activity or funding stream requires separate analysis to ensure amounts (revenue and expenditures) are accurately reported. Classification of fund balance by category – nonspendable, restricted, committed, assigned, and unassigned - is dependent upon the analysis of each activity and/or funding stream (federal, Highway Maintenance Fund, RICAP, Gas Tax, etc.). RIDOT did not fully reconcile all the funding sources to fund balance components. A full reconciliation is necessary to identify expenditures and/or revenue booked to incorrect funding sources in addition to ensuring that the fund balance is properly recorded for financial statement purposes. The accounts payable identification process for fiscal close is manual, complex, labor-intensive, and susceptible to error. Examples of weaknesses in the current process include:

- Timing differences from processing transactions through multiple systems increase the risk of duplicating and/or missing accrual transactions.
- The use of different accounting structures in RIFANS and FMS without a complete mapping table that could be used to electronically identify the proper accounting structure to record accruals identified; and
- Using data queried from RIDOT’s systems to record accounts payable – a programming issue was found to be the underlying cause of omitted payables detected by our audit.

This process should be re-assessed with the goal of streamlining and simplifying the process. Greater use of estimates should be considered when appropriate.

RIDOT also lacks a formalized review of its financial closing procedures and preparation of the draft financial statements needed to prevent some of the misstatements noted during the audit.

Effect: Misstatements within the IST Fund financial statements could go undetected by management.

RECOMMENDATIONS

2020-018a Ensure the transactions identified through the analysis of each activity and/or funding source within the IST Fund result in the appropriate categorization and reporting of fund balance components. Ensure a complete reconciliation of activity by funding source to the fund balance components included on the financial statements is performed.
2020-018b  Re-assess policies, procedures, and controls to identify and record accounts payable at fiscal close with the aim of streamlining and simplifying where possible. Consider increased use of estimates where appropriate.

2020-018c  Enhance fiscal closing procedures to ensure all expenditures recorded in clearing accounts are properly allocated to the correct accounts by fiscal year-end. Consider whether recording accrual entries to the clearing accounts is appropriate.

2020-018d  Improve controls over the FMS to RIFANS mapping table by ensuring all FMS accounts have an associated RIFANS account.

2020-018e  Formalize the review of RIDOT’s financial closing procedures and preparation of the draft financial statements to enhance control over financial reporting for the IST Fund.

Management’s Views and Corrective Actions:

2020-018a: Short Term: During FY 2020, RIDOT did work to improve the fund balance procedure. However due to COVID and staff turnover/absences, the fund balance improvements were not made as quickly or in their entirety as the department had hoped. During the fiscal year the fund activity was reconciled by RIFANS line items for all Federal accounts to ensure accuracy and consistency. Any inconsistencies found are adjusted at that time. During late FY 2020 into FY 2021, the focus will be to continue to develop policies and procedures to improve the fund balance reconciliation and ensure the process is compliant with GASB 54 standards. The short-term goal will include implementing the adopted policies and procedures to all Federal fund balance accounts.

Anticipated Completion Date of Short Term:  December 31, 2021

Long Term: Once the adopted policies and procedures have been implemented for all Federal fund balance accounts, RIDOT will expand the reconciliation to include all State fund balance accounts. This expansion of the process will ensure all fund balance accounts regardless of funding source are being reconciled monthly.

Anticipated Completion Date of Long Term:  June 30, 2022

2020-018b: Short Term: RIDOT has evaluated its policies and procedures to identify where additional controls can be put in place to ensure accurate identification of accounts payable at fiscal close. RIDOT has enhanced its policies and procedures to include the fiscal year field for an invoice be filled out all year round instead of just at fiscal close time. This will allow the Accounting section to run reports at any time to ensure invoices of $100,000 or greater that were received after the fiscal close reports were run will be included in the accrual entries. This automated process will reduce the risk of errors that occurred with the manual process. A second improvement made in FY 2021 was that the parameters for the second run of fiscal close reports were re-evaluated and changes were made to ensure all necessary invoices will be included on the report and in turn in the accrual entries.

Anticipated Completion Date of Short Term:  Implemented for FY 2021

Long Term: RIDOT will research the use of estimates with regards to the fiscal close process. This will take time as it will consist of analysis and research.

Anticipated Completion Date of Long Term:  TBD

2020-018c: RIDOT will revise the fiscal close procedures to ensure clearing accounts are reevaluated at various points throughout the close process including after all accrual entries are posted and after audit adjustments are posted. RIDOT will then do one final accrual entry to address clearing accounts should any accrual be posted in the clearing accounts. RIDOT will also consider posting directly to accurate accounts instead of the clearing accounts where possible.

Anticipated Completion Date:  June 30, 2021
Conclusion: RIDOT will evaluate the FMS to RIFANS mapping table to determine if all mapping tables can be streamlined to a consolidated mapping table or if a Master mapping table needs to be developed.

**Anticipated Completion Date:** December 31, 2021

**Finding 2020-019 (material weakness – repeat finding – 2019-029)**

**TRANSPORTATION INFRASTRUCTURE REPORTING**

Controls over the identification of transportation infrastructure assets need further improvement to ensure the accuracy of reported amounts. Controls should be improved to identify impaired infrastructure assets as well as removing infrastructure costs when assets are retired or replaced.

**Background:** RIDOT identifies transportation infrastructure assets using the RIDOT Financial Management System (FMS) to identify each project and ensures that total project costs (e.g., design and construction costs) are included in the capitalized amount. Since the source of the information used to identify capitalized infrastructure is FMS and the financial statements are based on RIFANS (statewide accounting system), the data used must be reconciled between the two systems.

**Criteria:** Generally accepted accounting principles (GAAP) require recording the State’s investment in infrastructure assets to be reflected on the government-wide financial statements. Such amounts should be capitalized and depreciated consistent with the State’s adopted accounting policies. Amounts are recorded as construction in progress until placed in service at which time depreciation commences.

GAAP also requires that capital assets be evaluated for impairment when events or changes in circumstances suggest that the service utility of a capital asset may have significantly and unexpectedly declined. These standards also require adjustment to the carrying value of capital assets that meet certain impairment criteria. The cost and related accumulated depreciation associated with infrastructure assets that have been replaced or are no longer in service should be removed from the infrastructure amounts included on the State’s financial statements.

**Condition:** Financial reporting for the State’s investment in infrastructure assets was impacted during fiscal 2020 by the following conditions:

- Infrastructure assets were misstated when year-end accruals were not properly included in reported construction in progress amounts.
- Improper recognition of project completion resulted in an understatement of depreciable infrastructure.
- Inconsistent application of infrastructure capitalization policies resulted in infrastructure being understated.
- Costs and related accumulated depreciation associated with infrastructure assets that have been replaced or are no longer in service had not been removed from the infrastructure amounts included on the State’s financial statements.
- Consideration of transportation infrastructure assets that may be impaired and recognized in the State’s financial reporting was not performed.
Misstatements relating to the above were corrected in the financial statements when brought to the attention of management.

**Cause:** RIDOT’s infrastructure asset identification process can be further enhanced going forward by standardizing processes and implementing controls to verify information entered in FMS. A process to remove estimated costs for retired/replaced infrastructure has not been implemented. The consideration and documentation of impaired infrastructure assets has not been formalized.

**Effect:** Infrastructure assets and related depreciation expense may be misstated in the State’s financial statements.

**RECOMMENDATIONS**

2020-019a Enhance controls over the assignment of the project infrastructure code by creating a standard form to document the proper infrastructure code to be entered into FMS and management’s concurrence and verification of the infrastructure code entered into FMS.

2020-019b Enhance controls over the identification of projects determined to be substantially complete to include a verification that the correct date is entered into FMS. Enhance controls over the maintenance of RIDOT’s Schedule of Construction in Progress to ensure the information maintained in the schedule agrees to FMS and the financial statements.

2020-019c Document consideration of transportation infrastructure impairment as required by generally accepted accounting principles.

2020-019d Implement a process to remove estimated infrastructure assets and related accumulated depreciation when assets have been replaced or taken out of service.

**Management’s Views and Corrective Actions:**

2020-019a: RIDOT Finance is working with Scoping and Project Management to develop a standard form for infrastructure code verification. The Grants section will also make sure that policies and procedures are updated to ensure there is management concurrence once entered into FMS.

*Anticipated Completion Date: June 30, 2021*

2020-019b: RIDOT Grants section will update policies and procedures to ensure management review and approval that substantially complete dates are entered into FMS accurately and to ensure the information entered from RIDOT’s Schedule of Construction in Progress agrees to FMS.

*Anticipated Completion Date: June 30, 2021*

2020-019c: RIDOT will review the criteria for impairment of assets and from there develop a policy and a procedure for determining if any of the State’s transportation infrastructure assets have been impaired. Finance will coordinate with the necessary sections to develop and implement this policy.

*Anticipated Completion Date: December 31, 2021*

2020-019d: RIDOT will work to develop a policy and a procedure for removing infrastructure assets that have been replaced or taken out of service. RIDOT will work with Accounts and Control to ensure the appropriate amounts are removed.

*Anticipated Completion Date: December 31, 2021*

**Contact Person:** Loren Doyle, DOT Acting Chief Operating Officer/Chief Financial Officer

loren.doyle@dot.ri.gov
ASSESS THE RESOURCES AND SYSTEMS NECESSARY TO EFFECTIVELY ADMINISTER THE OPEB SYSTEM

The resources necessary to effectively manage and administer the OPEB System to ensure all System functions are met and adequately controlled should be assessed. A unified database or computer application is needed to maintain membership data for each of the State’s OPEB plans. This would improve controls over the administration of the benefit programs and the process to accumulate data necessary for periodic actuarial valuations of the OPEB plans for both funding and accounting purposes.

**Background:** The Rhode Island State Employees’ and Electing Teachers OPEB System (the System), acts as a common investment and administrative agent for post-employment health care benefits provided by six plans covering state employees and certain employees of the Board of Education.

When the State began to advance fund its retiree health benefits, OPEB trusts were established for each of the plans and a formalized governance structure was established by statute; however, no dedicated personnel were specifically tasked with administering the System and no administrative systems were implemented at that time, or subsequently, to capture and control membership data for the various OPEB plans. Instead membership data, the determination of eligibility for benefits and any required retiree copays are administered through a variety of processes which largely lack the controls needed to administer plans of this size and complexity. In prior years, certain plan benefit functions were administered through the member benefit system used by the Employees’ Retirement System of Rhode Island (ERSRI) for pension benefits; however, the ERSRI’s newly implemented member benefit system no longer includes those functionalities.

The System’s functions are managed through various units within State government. The Department of Administration’s Office of Employee Benefits (OEB) currently determines eligibility and manages member benefits for the State Employees, Teachers, Judges, State Police and Legislator plans. The Human Resources Department at the University of Rhode Island separately determines eligibility, calculates benefits, and manages member subsidy receivables for the Board of Education plan. The Office of Accounts and Control handles the accounting and financial reporting aspects of the System and coordinates the actuarial valuations. The Office of the General Treasurer oversees the investment activity of the System.

Census data for each plan is provided annually to the System’s actuary to prepare required actuarial valuations of the plans. Each plan has unique benefit eligibility and healthcare coverage provisions.

**Criteria:** As the System grows in size and matures, the administrative infrastructure supporting the System should be assessed to ensure adequate resources and systems with appropriate controls are in place to manage the System effectively.

Maintaining membership data and determining the eligibility for benefits and required co-pays should be managed through systems and processes with adequate controls to ensure that membership data is reliable, benefits are accurately and consistently determined consistent with plan provisions, and plan census data is maintained to facilitate extraction for actuarial valuations. Duties should be appropriately segregated to ensure that no one individual is responsible for determining eligibility and required copays, enrolling the individual for coverage, collecting and accounting for copay amounts, and maintaining plan census data.

**Condition:** We identified control deficiencies over the various disjointed processes used to administer the OPEB plans as follows:

- Insufficient resources have been allocated and centralized to administer the System effectively. Knowledge of key System benefit provisions, administrative operations and operating procedures are dispersed among too many separate units of State government without effective coordination.

- The accumulation of census data provided to the actuary for plan valuation purposes is derived from multiple sources and requires analysis of other external source data to establish the active and retiree plan members for each plan. Because much of the analysis is done on spreadsheets, controls over data validity, data
Adequate segregation of duties exists between eligibility determinations, benefit calculations, copay receivable billings and collections, healthcare plan enrollment, and maintenance of the plan census information.

Periodic reconciliations between the plans’ records and healthcare providers enrollment data are not documented.

Procedures for identifying and terminating coverage for deceased members, spouses and dependents are inconsistent and can be improved.

**Cause:** The State and System have not implemented System specific administrative processes and computer applications to effectively support the overall administration of the OPEB System, accumulate plan census data, manage and control the eligibility, copay determination, and plan enrollment functions. Existing processes used to support healthcare plan enrollment for active employees have generally been used to support the OPEB System but lack certain functions and controls that are unique to and requisite for the administration of the OPEB System.

**Effect:** Inadequate controls over key plan administrative functions could impact the reliability of amounts (e.g., member co-pays and member benefits) reported on the System’s financial statements as well as the accuracy of census data used by the actuary to determine each plan’s annual actuarially determined contribution amount and the net OPEB liability or asset for each plan.

**RECOMMENDATIONS**

- **2020-020a** Assess the resources necessary to effectively manage and administer the OPEB System to ensure all System functions are met and adequately controlled.
- **2020-020b** Implement a member benefit computer application to accumulate and manage plan membership data to support the overall administration of the OPEB System with enhanced controls.
- **2020-020c** Evaluate assigned responsibilities for key functions and segregate certain responsibilities for incompatible functions to enhance controls over critical plan administrative functions.
- **2020-020d** Establish consistent procedures to identify deceased plan members and prompt timely termination of coverage.

**Management’s Views and Corrective Actions:**

The OPEB Board agrees with the recommendations presented by the Auditor General. The Board will pursue hiring one full-time dedicated staff resource within the State Controller’s Office to be responsible for key functions of the OPEB system. The Board believes implementing a stand-alone software application to accumulate and manage plan membership data will be too expensive for the System to finance with authorized administrative funding. However, to address this recommendation, the Board will request this functionality be included in the RFP for the new Enterprise Resource Planning (ERP) system being pursued by the Department of Administration, which is to include a full-service Human Resources module.

**Anticipated Completion Date:** September 30, 2021 for hiring of new staff; June 30, 2023 for implementation of new ERP system with functionality to manage OPEB membership data.

**Contact Persons:**

Thomas A. Mullaney, Executive Director/State Budget Officer
Thomas.Mullaney@budget.ri.gov

Peter Keenan, State Controller
Peter.Keenan@doa.ri.gov
RHODE ISLAND LOTTERY – CONTROLS OVER MOBILE SPORTS BETTING AND iLOTTERY GAMING ACTIVITY

Background: The Lottery implemented mobile sports betting in September 2019 allowing patrons to wager in RI Sportsbook (“sportsbook”) from anywhere in the State. Previously, only in-person sportsbook wagering was permitted at the Twin River casinos. In April 2020, the Lottery implemented iLottery which currently allows both mobile and on-line wagering for iKENO and eInstant games by registered patrons within the State borders.

The Lottery obtained pre-implementation certifications of these new gaming options to ensure that they would function as designed upon introduction to the public. The Lottery also implemented reconciliation controls to ensure the completeness of reported financial activity. Review of the gaming system contractor’s IT security policies and procedures over the new systems continues.

Criteria: Sportsbook, including mobile wagering, and iLottery are more technology advanced gaming options. Multiple third parties are utilized by the gaming system provider to administer the overall game functionality (i.e., “book-maker”, patron eWallet cash settlement intermediary). The Lottery only has a contractual relationship with the system technology provider; however, controls provided by the subcontractors are integral to the overall control structure for Sportsbook and iLottery games. Gaming functionalities performed by other third parties outside of the Lottery’s direct contract with the technology provider and gaming facility host require further consideration of the operational and technological risks of these games. This consideration may identify additional control assurances or specific reporting needed from contractors involved with the operation of these games.

As its gaming environment becomes more complex, the Lottery must continue to implement comprehensive controls and monitoring processes to address the unique operational characteristics and related risks of these gaming options. The Lottery now needs to continue implementation of a comprehensive “internal audit” functionality for these games which focuses on operational controls and game monitoring procedures.

This process will involve identifying all data, information, and control assurances (from all parties involved in the operation of these new games and wagering functionality) needed to implement the necessary monitoring and audit procedures to ensure the reliability of financial reporting information.

Condition: The Lottery’s controls and monitoring processes to address the unique operational characteristics and related risks of the mobile sportsbook and iLottery gaming options need further enhancement. Upon inquiry, the Lottery obtained Service Organization Control (SOC) reports for the vendors that support the “wallet” and cash settlement functionality of the gaming applications. Those reports referenced the involvement of various “sub-service” organizations which also must be considered in evaluating and administering a comprehensive control structure for Sportsbook and iLottery. Additionally, an independent review of the controls over the “book-making” operations of the sports gaming system was not available for our audit period. We were informed that a contractually required SOC report of sports gaming operations by the technology provider is expected in the future, however, no such review of the system technology provider’s controls was available for the fiscal 2020 period. These are critical control points of the sportsbook operations that require additional consideration by the Lottery.

For both mobile sports betting and iLottery, risks are increased through external devices (phones and computers) accessing the gaming platforms. The Lottery’s challenges in monitoring diverse gaming activities include the overall cyber-security threats common to all information technology as well as the more specific risks associated with rapid technology deployments that provide new gaming options.

For all Lottery gaming activities prior to 2020, the cash collection and reconciliation functions were separate from the technology provider that operated the system. The cash settlement functions for mobile Sportsbook and iLottery are substantially different from other games and involves the technology provider as well as other external vendors. The Lottery is the custodian of patron eWallets for mobile sportsbook; however, this requires a significant amount of manual reconciliation for the Lottery. The Lottery intends to transfer this function to the sportsbook host (Twin River), as was initially envisioned, so that the cash settlement process can be managed with other sportsbook activity at the casinos. We concur that this would strengthen controls over the daily cash settlement and financial reporting functions for mobile sportsbook activity.

In addition, periodic random sampling of sportsbook odds and final event results recorded within the sports gaming system should be tested and compared to other external sources. This data becomes the basis for revenue and expense activity recorded within the Lottery’s financial statements.
Cause: Both mobile sports betting and iLottery are operationally different and incorporate new technologies compared to other Lottery gaming options. Additionally, implementation of mobile gaming soon after sportsbook significantly increased the pace of technological and operational challenges being managed by the Lottery in recent years.

It may be appropriate for the Lottery to engage a consultant with specific experience to guide the development of a comprehensive “internal audit” functionality appropriate for sportsbook and iLottery gaming activities. This may include building automated and independent data accumulation and matching processes which would enhance the reliability of data used for financial reporting purposes and facilitate other monitoring efforts.

Effect: Weaknesses in controls and monitoring processes exist for the mobile sportsbook and iLottery gaming options

**RECOMMENDATIONS**

2020-021a Develop a comprehensive “internal audit” functionality appropriate for sportsbook gaming and iLottery activities. Consider engaging a consultant to guide the development of this process.

2020-021b Continue with the planned transition of the custodianship of sportsbook eWallets to the sportsbook host, Twin River, to streamline and enhance controls over the mobile sportsbook cash settlement process.

**Management’s Views and Corrective Actions:**

The Lottery strongly disagrees with the finding of “significant deficiency” related to mobile sports betting and iLottery. More pointedly, there are no specific examples or incidents referenced in Finding 2020-021 where Lottery’s reporting was incorrect or inaccurate.

Over the last fiscal year, the Lottery has made substantial enhancements with internal controls in response to the introduction of mobile and online service delivery channels. The Lottery agrees that mobile applications and digital technology require modifications to the control environment to address technological advances and changes related to the mobile environment, and the Lottery has made it a priority to develop these monitoring and oversight procedures as these new systems are operationalized. Further, the Lottery continues to review, modify, and expand such monitoring and oversight as needed based on the evolution of these delivery channels. The operational environment for mobile applications requires procedures different than other Lottery lines of business whereby operational systems, cash collections, reconciliations, and regulatory oversight are performed by separate entities. The traditional model for such functions simply does not translate from an operational standpoint. For example, with iLottery, the fraud, funding, and customer service procedures handled by the systems provider are based on the provider’s resources and expertise in the industry, as well as the technological development and deployment of this specific delivery channel. Moreover, all ewallet deposits and withdrawals are through independent, experienced companies with trustworthy reputations.

More importantly, the iLottery and sports betting systems (as well as all of the Lottery’s systems) have been – and continue to be – audited from an IT security, system functionality, and financial reporting standpoint internally by the Lottery and externally using industry-leading gaming and IT security auditing firms. Likewise, the Lottery conducts – and monitors compliance through – internal reviews to identify and manage risks, including comprehensive reviews of system controls related to mobile sports betting and iLottery. These internal and external reviews occur on a scheduled basis and utilize industry standards. The Lottery also continuously monitors the gaming contractor’s internal and external assessments as these pertain to IT security reviews and assessments.

Given the current fiscal uncertainty with the state budget, it would be unrealistic to believe that the Auditor General’s suggestion with respect to additional resources for the internal audit functions will be allocated in the next fiscal year. Nonetheless, the Lottery will continue to adjust and tighten its oversight processes.

In reference to SOC (Service Organization Control) reports, the Lottery provided SOC reports from the major independent companies through which all ewallet deposits and withdrawals are made. The Lottery also provided a SOC report for its gaming system provider for its shared services systems for iLottery. To the extent possible, the Lottery has, and will continue to, pursue service entity reports through the Lottery’s contracted sports betting system provider, and any integral entities, but it should be noted that the Lottery does not have contractual relationships with third-party vendors providing services to the system provider, and holds the system provider responsible for the subcontracted services.
With respect to the Auditor General’s suggestion that the Lottery should conduct “periodic random sampling of sportsbook odds and final event results,” the Lottery does, in fact, conduct such reviews. In particular, with retail, the Lottery tests paid tickets over $10,000, as well as randomly selected tickets, and odds and final event results are the same throughout the system.

Additionally, the Lottery has worked diligently since inception of both sports betting and iLottery to provide complete, accurate, and timely financial reporting from system implementation deadlines and implemented procedures related to system reports and cash reconciliation procedures.

Lastly, the sports betting funding and cash custodial procedures were anticipated to be assumed by Twin River Casinos as of March 2020. However, due to the global COVID-19 pandemic, the Casinos closed and transfer of this function from the Lottery was delayed. The Casinos were shuttered for three (3) months and now are operating at approximately fifty (50%) capacity, with a reduced workforce. The transfer process currently is in progress, and additional procedures will be implemented for mobile sports betting to address daily cash reconciliation to system reports as needed.

**Anticipated Completion Date:** Ongoing

**Contact Person:** Mark Furcolo, Director
mfurcolo@rilot.ri.gov

**Auditor’s Response:** We acknowledge that these mobile/remote gaming options are new and related control procedures continue to evolve. Despite the contracted nature of the Sportsbook and iLottery gaming functions (including subcontracts), the Lottery ultimately remains responsible for maintaining a comprehensive monitoring process over gaming operations and financial reporting information. The focus of our finding is on the design and implementation of appropriate control procedures rather than a known financial statement misstatement. Our recommendations are reflective of the likely growth in these modes of gaming over the next few years and the need for controls and monitoring procedures that are specific to the unique and complex operational aspects of the games. As a point of reference, the Lottery made a substantial investment in monitoring and oversight procedures with the advent of table games a few years ago, which was in response to the unique operational aspects of those games.

**Finding 2020-022**

**RHODE ISLAND CONVENTION CENTER AUTHORITY – RESTRICTIVE COVENANTS**

**Criteria:** Bond indentures require that the Authority fund the Operating Reserve requirement of the restrictive covenants for the RICC and the DDC.

**Condition:** During the year ended June 30, 2020, the Authority was unable to fund the Operating Reserve requirement of the restrictive covenants for the RICC and the DDC pursuant to the indentures.

**Context:** The Authority is currently in violation of certain debt indentures with respect to the Operating Reserve requirement.

**Effect:** As a result of this fund not being funded, the Authority is in noncompliance with certain bond indentures.

**Cause:** The Authority does not have sufficient cash flow to fund the Operating Reserve.

**RECOMMENDATION**

2020-022 We recommend that the Authority fund the Operating Reserve.

**Management’s Views and Corrective Actions:**

The Authority will fund the Operating Reserve provided there is sufficient cash flow.
Given that the Authority continues to make timely and complete debt service payments, it would make little sense for the trustee to declare a default for reserve fund noncompliance. In fact, this has been the practical practice over several years as the Authority has failed to maintain adequate reserves due to insufficient State appropriations. If a default was declared, the Authority would have 90 days to cure and would see a legislative appropriation to remedy the default. Of course, annual appropriations in excess of debt service requirements would assist in building reserves and reaching the requirements.

Anticipated Completion Date: Undetermined

Contact Person: Daniel McConaughy, Executive Director
Rhode Island Convention Center Authority
Daniel.mcconaghy@riccauth.com

Finding 2020-023  (material weakness – repeat finding – 2019-031)

CENTRAL FALLS SCHOOL DISTRICT – SIGNIFICANT ADJUSTMENTS

Criteria: Management is responsible for the maintenance of adequate accounting records, internal controls, and the fair presentation of the financial statements in accordance with generally accepted accounting principles.

Condition: Material adjustments to year-end balances and current year activity were necessary for the financial statements to be fairly presented in accordance with generally accepted accounting principles.

Cause: There are a number of causes for this condition, many being the result of attempts to correct circumstances. However, the principal causes are a lack of a coordinated, comprehensive plan to implement and train employees with new financial software, concurrent with the retirement of several key long-term employees.

Effect: Information recorded in and reports produced from the accounting system contained numerous material errors related to the inclusion or exclusion of information resulting from data entry and software execution errors, resulting in material adjustments accepted by management to the District’s financial statements.

RECOMMENDATION

2020-023 A comprehensive plan to coordinate all District financial accounting recording and reporting activities is in the process of being developed and implemented. This plan should include the development of a comprehensive policies and procedures manual; adequate staffing including training of all staff as to both the processes and the software involved; appropriate controls related to authorization and review of recorded transactions; timely recording of transactions, reconciliations and reviews of reconciliations so as to detect and correct errors in a timely manner, and a comprehensive review of the District’s organizational structure to ensure adequate levels of supervision and clear reporting paths for all staff involved.

Management’s Views and Corrective Actions:

The District agrees with the finding. The District also agrees with the recommendation.
Management will correct the material weakness by ensuring adequate staffing including training on the processes and software involved, appropriate controls related to authorization and review of recorded transactions, and timely recording of transactions and reconciliations.

Anticipated Completion Date: Ongoing

Contact Person: Keree J. Simmons, Director of Finance
Central Falls School District
simmonsk@cfschools.net
Finding 2020-024 (significant deficiency – repeat finding – 2019-032)

CENTRAL FALLS SCHOOL DISTRICT – CAPITAL ASSETS

Criteria: Capital assets are maintained by the District and reported in the government-wide statement of net position. Although these capital assets and the related depreciation do not impact the fund statements of the District, they do have an impact on the overall governmental net position. Additionally, the District is required to maintain capital asset records for all assets that are purchased with federal grant funds.

Condition: The District does not have procedures for maintaining the capital asset records on a perpetual basis or for taking a physical inventory of these assets. In addition, the District does not have a system in place for identifying capital assets acquired with federal grant funds.

Cause: The District currently maintains the capital asset records utilizing an excel database which is updated on an annual basis. This database contains a complete listing of capital assets and related depreciation expense which is maintained for financial reporting purposes only. The listing currently does not include any information regarding the location of the asset or the source of the funds used to acquire the asset.

Effect: Failure to maintain the capital asset records on a perpetual basis increases the risk of potential misstatement of the capital assets at year end. In addition, failure to conduct a periodic inventory of capital assets, including controllable assets (assets not meeting the capitalization threshold but included in inventory due to their sensitive, portable, and/or theft prone nature) increases the risk of misuse and misappropriation of District assets.

RECOMMENDATION

2020-024 We recommend that the District implement an integrated software package that will enable capital assets to be recorded when the asset is acquired rather than being captured at year end. We further recommend that the capital asset inventory be updated to include the location of the asset and a code to identify all assets that are acquired with federal funds. Management should utilize this capital asset inventory listing, as well as the controllable asset listing, to conduct periodic inventories of the assets.

Management’s Views and Corrective Actions:

The District agrees with the finding. The District also agrees with the recommendation.

Management will correct the material weakness by ensuring adequate staffing including training the processes and software involved, appropriate controls related to authorization and review of recorded transactions, and timely recording of transactions and reconciliations.

Anticipated Completion Date: Ongoing

Contact Person: Keree J. Simmons, Director of Finance
Central Falls School District
simmonsk@cfschools.net

Finding 2020-025 (significant deficiency – new finding)

RHODE ISLAND HIGHER EDUCATION SAVINGS TRUST – FINANCIAL REPORTING - OMNIBUS ACCOUNTS

Criteria: As of the date of this report, the Program Manager has entered into three omnibus services agreements pursuant to which third party investment firms (referred to as “omnibus partners”) are responsible for new account enrollments, maintenance, transaction processing, recordkeeping and tax reporting for certain participant accounts. Separate accounts are maintained for each of the three omnibus partners on the Program Manager’s recordkeeping platform. The omnibus partners provide activity files containing account level transactions and balances to the
Program Manager daily. To ensure that there are no errors in financial reporting, controls should exist to ensure that the omnibus partners’ account balances on the Program Manager’s recordkeeping platform agree to or are reconciled with the account balances on each respective omnibus partner’s recordkeeping platform. In addition, controls should exist to ensure that aggregated activity occurring within participant accounts on each omnibus partner’s platform is accurately reported on the Program Manager’s recordkeeping platform. These controls are critical to ensure accurate and complete financial reporting for all of the balances and transactions attributable to RIHEST in accordance with accounting principles generally accepted in the United States (US GAAP).

Condition/Cause: A daily reconciliation process between the Program Manager and custodian occurs for all RIHEST balances and transactions, including omnibus level balances and transactions. This ensures that all balances and transactions recorded on the Program Manager’s recordkeeping platform are consistent with those recorded by the custodian. However, this reconciliation process will not detect errors in data exchanged between the Program Manager and the omnibus partners, nor will it detect missing or incomplete information. Currently, there are no periodic reconciliations between each omnibus partner’s balance and transactions recorded on the Program Manager’s recordkeeping platform to those recorded on each respective omnibus partner’s recordkeeping platform. Reporting provided by the omnibus partners to the Program Manager is not sufficient to allow such reconciliations to take place, and enhanced reporting will be needed from the omnibus partners to establish such periodic reconciliations.

Effect: Financial reports generated from the Program Manager’s recordkeeping platform that are necessary to ensure reporting in accordance with US GAAP were inaccurate and incomplete, containing balances and transactions that did not reconcile to those reported by the custodian nor to the omnibus partners. This issue was identified during the audit process, and significant effort was required on the part of the Program Manager to reconcile balances and transactions and to prepare accurate reports.

RECOMMENDATION

2020-025 This matter was identified during our audit of RIHEST’s basic financial statements as of and for the fiscal year ended June 30, 2019, when there was only one omnibus partner, and was not corrected during the year ended June 30, 2020. We recommend that the Program Manager develop control processes to ensure periodic reconciliations of balances and transactions on its recordkeeping platform with those on the recordkeeping platforms of the omnibus partners. This reconciliation process should also include a verification of the accuracy of financial reports that are critical to plan wide financial reporting.

Management’s Views and Corrective Actions:

Corrective action to be taken by Program Manager.

Anticipated Completion Date: Ongoing

Contact Person: Chris Civittolo, Director of 529 Savings Programs
chris.civittolo@treasury.ri.gov
ADVANCES TO PROVIDERS OF SERVICES FOR INDIVIDUALS WITH DEVELOPMENTAL DISABILITIES

Advances outstanding to providers of services for individuals with developmental disabilities need to be permanently resolved. During fiscal 2020, these advances were not reduced by the sale proceeds from State-owned group homes as required by the General Laws.

Many years ago, at the inception of new programs for developmentally disabled individuals, advances were made to certain providers to provide working capital until provider billings and reimbursements commenced. The expected duration and repayment terms were not sufficiently delineated and consequently these balances have existed for decades. These advances remain outstanding with a total balance on June 30, 2020 of $12.4 million across 21 providers.

Within the State’s current practice, the advances have been returned by the providers on the last day of the fiscal year with an immediate “new” advance made the next day. This temporary repayment prevents accounting recognition of the advances (as expenditures) in any budgetary period. The current annual advance process lacks statutory authorization, and the long duration of the advance procedure has led providers to dispute that this advance is due back to the State. Efforts to permanently collect the advances from the providers without unintended hardship or consequences is likely challenging.

Section 37-7-15 of the RI General Laws allows the State Controller, with the approval of the Director of the Department of Administration, to offset any currently recorded outstanding liability on the part of developmental disability organizations (DDOs) to repay previously authorized startup capital advances against the proceeds from the sale of group homes within a fiscal year prior to any sale proceeds being deposited into the information technology investment fund (the normal depository for proceeds from State property sales). This has occurred, on occasion, but has not decreased the balance of outstanding advances to any material extent. During fiscal 2020, the State sold six group homes with total proceeds of $1.1 million; however, these amounts were deposited into the information technology investment fund for the restricted use of that fund rather than reducing the amounts advanced to the related providers of services to developmentally disabled individuals.

The State needs to permanently resolve this issue with the provider group and discontinue the annual advance procedure.

RECOMMENDATIONS

MC-2020-01a Seek a permanent resolution of the status of the advances to providers of services to developmentally disabled individuals.

MC-2020-01b Ensure use of proceeds from the sale of State-owned group homes to reduce startup capital advance amounts for providers of services to developmentally disabled individuals.

MC-2020-01c Discontinue annual advances made to providers of services for individuals with developmental disabilities.

Management’s Views and Corrective Actions:

The Department of Administration and Office of Management and Budget agree that a permanent resolution of the advances to DD providers must be found. The Administration is examining various options to resolve this issue and will engage the impacted providers to come to an equitable solution. In the meantime, the Administration will ensure when appropriate that proceeds from the sale of State-owned group homes is applied to reduce outstanding advances.

Anticipated Completion Date: September 30, 2021

Contact Person: Jonathan Womer, Director, Office of Management and Budget Jonathan.womer@omb.ri.gov
SCHOOL BUILDING AUTHORITY CAPITAL FUND - BOND PROCEED TRANSFERS TO RIHEBC

The process of disbursing School Building Authority funds to local educational agencies through the RI Health and Educational Building Corporation (RIHEBC) should be reviewed and potentially reconsidered.

Disbursement of the State’s general obligation bond proceeds issued for the School Construction Bond Program are made by RIHEBC to local education agencies (LEAs). To date, $70 million of the $250 million authorized by voters has been issued. All project review and approval of disbursements is made by the Rhode Island Department of Education and bond proceeds are held by the State pending transfer to RIHEBC solely for disbursement purposes.

The State transferred $26.9 million in a lump sum transfer to RIHEBC representing the amount estimated for local school construction-approved project disbursements in fiscal 2020. The transfer of bond proceeds could be enhanced with the establishment of a periodic transfer schedule (e.g. weekly) to limit bond proceed transfers to only those project expenditures authorized for disbursement by the School Building Authority. This process would minimize the risk of incurring arbitrage rebates on excess funds held by RIHEBC pending disbursement. This process would also prevent bond proceeds from being transferred to RIHEBC in advance of the formal approval of local school projects and related disbursements by the School Building Authority. Procedures for unanticipated disbursements should also be adopted to allow for high priority disbursements that cannot be accommodated by the regular transfer schedule.

The State should also consider disbursing the bond proceeds directly to LEAs. RIHEBC acts simply as a disbursing agent and has no role in reviewing or approving payments to LEAs. The State typically disburse general obligation bond proceeds for authorized purposes and makes routine disbursements to LEAs of state education aid and federal funds on a continual basis. The current process of having RIHEBC disburse the funds unnecessarily complicates transaction processing and decreases the transparency of the underlying disbursements within the State’s accounting system since the disbursements show as payments to RIHEBC rather than the municipality or local school district that is ultimately receiving the funds. Direct reimbursement would also be more cost-effective as it would eliminate the need for RIHEBC to maintain an additional trustee account for disbursement. This change would require amendment of the RI General Laws.

RECOMMENDATION

MC-2020-02 Establish procedures to limit transfer bond proceeds to RIHEBC for disbursement to LEAs to amounts approved for immediate disbursement by the School Building Authority.

Management’s Views and Corrective Actions:

The Rhode Island Health and Educational Building Corporation (RIHEBC) is in agreement with the Auditor General’s finding that transfers of bond proceeds to RIHEBC should match more closely with when the funds are ready to be used. We have consulted with the School Building Authority (SBA) and propose a corrective action that entails a monthly process through which the SBA sends a report to RIHEBC that estimates funding for the upcoming month. This report becomes the basis for RIHEBC’s request to the State for the transfer of bond proceeds. Upon receipt of this request, the State will transfer the requested funds to RIHEBC. This request will factor in the current balance in the Pay-Go trust account, such that if funds remain in the account from a delayed or cancelled project, only the net amount will be requested from the State. To the extent there are sufficient funds already held in the Pay-Go trust account, RIHEBC will report to the state that no funds are needed for the month in question.

For the record, RIHEBC would be in favor of the final suggestion made in the finding, namely to have the State disburse pay-go bond proceeds directly to LEA’s rather than channeling the funds through RIHEBC.

Anticipated Completion Date: First monthly report from SBA will be June 15, 2021, for funding of approved grants in July.

Contact Persons: Kim Mooers, Executive Director, RIHEBC kmooers@rihebc.com
Management Comment 2020-03  
(new comment)

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE (RIDHEA)

The remaining activities of the Division of Higher Education Assistance should be accounted for within the State’s General Fund rather than as a discretely presented component unit.

In prior years, the predecessor Rhode Island Higher Education Assistance Authority had multiple activities including acting as the guaranty agency for federally insured student loans. With federal changes to those programs some years ago, a Division of Higher Education Assistance was created within the Office of the Postsecondary Commissioner (OPC). While the operational and financial aspects of the guaranty agency wound down, the Division continued to be reported as a discretely presented component unit with separately issued and audited financial statements. What now remains is essentially the disbursement of scholarship funds which originate from the State.

This activity could easily, and more appropriately, be reported within the State’s General Fund rather than as a separate financial reporting entity. This would eliminate the additional accounting and financial reporting requirements currently maintained for the Division’s operations. In addition, accounting for the scholarship and grant program within the State’s General Fund would bring those operations under the State’s centralized control processes, significantly improving the segregation of duties over program operations that are currently limited within the Division.

RECOMMENDATION

MC-2020-03  Account for the scholarship and grant activities of the Division of Higher Education Assistance – Office of Postsecondary Commissioner within the State’s General Fund.

Management’s Views and Corrective Actions:

With regard to the recommendation that the scholarship and grant activities of the Division of Higher Education Assistance – Office of the Postsecondary Commissioner be accounted for within the State’s General Fund, management has taken this recommendation under advisement.

Anticipated Completion Date:  A final decision to make this change will be completed on or before June 30, 2021.

Contact Person:  Susan Mansolillo, Chief Financial Officer
Susan.Mansolillo@riopc.edu

Management Comment 2020-04  
(previously reported as Finding – 2019-006)

PERIODIC INVENTORY OF CAPITAL ASSETS

The processes followed for periodic physical inventories of capital assets and the evaluation of inventory results can be enhanced to ensure that accurate capital asset records are maintained.

The Office of Accounts and Control requires departments to perform agency-specific inventory verification for capital assets on a three-year cycle. Inventories are conducted by departmental staff without staff participation from the Office of Accounts and Control. Inventory results are reported to the Office of Accounts and Control which prompts any required accounting adjustments. Over-reliance is placed on the certification provided by the departments when assets are not located without sufficient inquiry and investigation for material assets reported as not found.

Periodic physical capital asset inventories are a best-practice and important control procedure to ensure the
accuracy of the State’s capital asset accounting records. Physical control of capital assets is diminished when there is insufficient follow-up and consequence for lost material assets.

RECOMMENDATIONS

MC-2020-04a  Include staff from Office of Accounts and Control on the team performing each cyclical, departmental capital asset inventory.

MC-2020-04b  Enhance review and inquiry for material capital assets reported as not found before assets are removed from the State’s capital asset inventory records.

Management’s Views and Corrective Actions:

 Accounts and Control agrees with the finding and will take a number of steps to increase the accuracy of the physical inventory reporting. First, Accounts and Control has worked with DoIT to improve the inventory report provided to agencies and the report now includes all descriptive fields from the fixed asset database. Second, although the Office of Accounts and Control is in contact with agencies throughout their inventory process, an Accounts and Control staff member will meet with the appropriate level agency member to review findings and answer any questions before the final report is submitted and approved. The initial results of the inventory will determine what position in the agency hierarchy Accounts and Control would want to attend the meeting. Finally, write-off thresholds will be established based on asset category. If an asset meets the established threshold, additional documentation would be required to illustrate the disposition of the asset.

Anticipated Completion Date:  June 30, 2021

Contact Person:  Sandra Morgan, Supervising Accountant
Sandra.morgan@doa.ri.gov

ACCOUNTING POLICY FOR INFORMATION TECHNOLOGY INTERNAL SERVICE FUND

Policies need to be further enhanced to guide how costs are charged to and reimbursed from the Information Technology internal service fund.

The Information Technology internal service fund distributes various centralized information technology costs to State departments and agencies. The costs included in the internal service fund are generally for costs of the Division of Information Technology (Department of Administration) including the operations of the State Data Center. The Information Technology internal service fund accounted for activity totaling $39.4 million during fiscal 2020.

Internal service funds are created to distribute common costs to multiple departments and agencies. Internal service funds are intended to operate on a break-even basis and therefore there needs to be appropriate and consistent matching of expenses and charges to user agencies.

The State purchased 4,700 personal computers (desktops and laptops) in a prior year and expensed the purchase because the cost of each individual computer was less than the State’s capitalization threshold for computer equipment; however, agencies were allowed to be billed for those equipment acquisition costs over as many as five fiscal years. This creates a disconnect between the billing policy and the accounting policy and distorts annual operating results. Annual operating results of the internal service funds must be continually monitored to ensure the internal service fund operates as close to break-even as possible.

Accounting policies have been drafted but not formalized to ensure consistency between billing and accounting practices. Expenditures within the operating funds of the State (e.g., General Fund) could be misstated due to inappropriate accounting policies employed within the Information Technology internal service fund.
RECOMMENDATION

MC-2020-05 Develop policies consistent with the State’s accounting policies and generally accepted accounting principles to provide for consistent recognition of revenue and expense to ensure the internal service fund operates on as close to a break-even model as possible.

Management’s Views and Corrective Actions:

A draft policy has been drafted regarding the Internal Service Fund billings, including the charge back of the cost of fixed asset acquisitions. The policy states agencies will be charged back over the useful life of an asset. This policy implements a consistent billing approach while trying to maintain a break-even model for the individual fund.

Anticipated Completion Date: June 30, 2021

Contact Person: Benjamin Quattrucci, Financial Reporting Manager
Benjamin.quattrucci@doa.ri.gov

Management Comment 2020-06 (previously reported as Finding 2019-022)

DIVISION OF TAXATION – STAARS FINANCIAL REPORTING IMPACTS

Processing functionalities within the Division of Taxation’s STAARS system result in a volume of returns held in suspense pending resolution. This complicates financial reporting estimates due to the uncertain effect of returns that had not fully processed at fiscal year-end.

The Division’s State Tax Administration and Revenue System (STAARS) system functionalities suspend returns from complete processing when any variety of conditions exist. Returns remain in suspense (posted exceptions report) until workers resolve the issue thereby allowing the return to complete processing. The volume of returns has decreased as the system matures, additional system experience is gained, and targeted efforts to “work” categories of return exceptions are deployed. Systemic clearance of suspended returns has also been effectively employed.

Revenue recognition for financial reporting purposes includes estimating the effect of returns received but awaiting full processing to determine the likely revenue impact. The volume of returns in suspense still requires consideration for financial reporting purposes. As part of the fiscal closing process additional analysis can be performed to identify unusual items requiring immediate correction, reduce the overall volume where possible, and to support year-to-year comparison of the volume of suspended returns pending clearance by category.

The Division can continue to increase its use of advanced analytical tools, in concert with the STAARS development vendor, to (1) prioritize resolution efforts for items included on the posted exceptions report, and (2) apply “system” resolutions to groups of returns to reduce the number of returns requiring staff intervention.

RECOMMENDATIONS

MC-2020-06a Continue to utilize advanced analytical tools to (1) prioritize resolution efforts for items included on the posted exception report, and (2) apply a system resolution to groups of returns to reduce the number of returns requiring staff intervention.

MC-2020-06b Perform additional analysis at fiscal close to identify unusual items requiring immediate correction, reduce the overall volume where possible, and to support year-to-year comparison of the volume of suspended returns pending clearance by category.

Management’s Views and Corrective Actions:

Management respectfully disagrees with this comment. STAARS was designed to flag and hold certain returns programmatically in order prevent fraud and flag return issues. Systematic and programmatic reviews are in place to automate as much as possible, within limits. This serves the state’s best interest and there have been demonstrated and significant improvement from the mainframe era of tax processing.
Further, these suspension/posted exceptions do not impact financial reporting and are monitored at numerous levels with a specific focus on fiscal impact of suspended and posted exceptions. The Division of Taxation’s pending suspense queues have been reduced using system processes and weekly business processes. There are no estimates used for financial reporting purposes that are based on items in suspense. The financial reporting estimates are derived from 5-year averages and other percentages which are re-evaluated every year using actual data regarding billing and collections. The Division of Taxation will continue to work with Accounts and Controls to review its data to confirm estimation methodology.

**Anticipated Completion Date:** On-going/Complete

**Contact Person:** Neena S. Savage, Tax Administrator  
Neena.savage@tax.ri.gov

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**Management Comment 2020-07 (previously reported as Finding 2019-012)**

**FORMAT OF ENACTED BUDGET TO FACILITATE BUDGETARY CONTROL AND REQUIRED BUDGETARY FINANCIAL REPORTING**

The form and content of the State’s annual operating budget should be enhanced to facilitate alignment with the specific funds used to account for activities and to provide more effective planning, management, and monitoring tools.

The State’s financial statements include budgetary schedules to compare budgeted and actual results. The State prepares budgetary comparison schedules on a fund basis while the budget is enacted on a comprehensive, state-wide basis. Budgetary comparison schedules are prepared for the General Fund, Intermodal Surface Transportation Fund (IST), Temporary Disability Insurance Fund and RI Capital Plan Fund.

The format of the budget and the budgetary comparison schedules required for financial reporting purposes are not aligned. Because the enacted budget is presented on a comprehensive, state-wide basis, significant effort is required to disaggregate the budget data for comparison with the fund level information reported in the State’s financial statements. In addition, certain budgetary resources and outlays on an individual fund budget presentation are omitted from the comprehensive budget presentation to avoid duplication.

Transportation activities included in the annual budget are so highly summarized (e.g., infrastructure-engineering) that it limits effective analysis of the budget as a financial compliance and management tool. Transportation funding and activities have significantly changed in recent years without changes in the budget presentation. The enacted budget does not include all the transportation related activity which is now accounted for within five separate special revenue funds which are combined for financial reporting purposes. A complete transportation budget which corresponds with all activity reported in the IST Fund is needed for this significant component of overall State operations.

The current format of the operating budget and the budgetary comparison schedules limits the effectiveness of the information provided as planning, management and monitoring tools. The budgetary comparison schedule preparation process is prone to error and requires significant year-end effort to ensure that the information is correct and corresponds to financial statement amounts and the enacted budget.

**RECOMMENDATIONS**

MC-2020-07a Improve the presentation of the budget amounts for transportation activities. Consider changes in the level of detail and include all transportation activity.

MC-2020-07b Include fund information within the budget to facilitate recording the budget in the accounting system and preparing budget-to-actual comparisons.

**Management’s Views and Corrective Actions:**

The Budget Office, in cooperation with the State Controller, will convene a meeting to include the State Auditor General, the House Fiscal Advisor and the Senate Fiscal Advisor, to discuss and propose options to
address this finding. The Budget Office is open to improving the presentation of budget information either in the annual appropriations act or in related budget documents to facilitate budget to actual comparisons and reporting. It should be noted that the Appropriations Act is not intended to be an accounting document and thus may not be the place to identify certain information. Ancillary budget documents, such as the Technical Appendix, may be a more appropriate location to provide the additional detail sought.

**Anticipated Completion Date:** September 30, 2021

**Contact Persons:**
- Joseph Codega, Deputy Budget Officer
  Joseph.codega@omb.ri.gov
- Daniel Orgel, Chief Budget and Policy Analyst
  Daniel.orgel@budget.ri.gov

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**TOBACCO SETTLEMENT FINANCING CORPORATION**

The Tobacco Settlement Financing Corporation requires additional administrative support and should periodically update its projected debt service requirements to reflect operating and other economic factors.

The Tobacco Settlement Financing Corporation (TSFC) is a blended component unit of the State. The TSFC is unique in that it has no dedicated staff and meets its administrative and financial reporting responsibilities through staff within the Budget Office and Office of Accounts and Control. The Office of Attorney General manages specific legal issues related to the compliance and enforcement of the multi-state tobacco settlement agreement. TSFC engages a CPA firm to prepare TSFC’s annual financial statements. While this is necessary, that firm cannot step into the role of management for the TSFC and serves only to compile the annual financial statements. Similarly, the TSFC’s external auditor role does not extend to managing the entity or providing other administrative support.

We believe there is a need for greater administrative support for the TSFC to manage and coordinate required financial reporting tasks, act as a liaison to the Attorney General’s office, stay current with bond rating changes for the various states that have issued tobacco settlement debt, and act as a liaison to bond counsel, the Corporation’s fiscal advisor, and board members. These tasks likely do not require a full-time position but do require more attention, particularly since the Board meets infrequently, often just once annually to accept the annual audit.

Additionally, review of the TSFC’s financial statements highlights the need to obtain an independent financial analysis of the TSFC’s ability to support long-term debt service, specifically the deep discount debt that matures in more than 30 years. While projections of future tobacco settlement revenues have been prepared and used to support recent refinancing of certain tobacco bonds – an updated comprehensive analysis is necessary to provide board members and other State leaders with a current projection of the likelihood that sufficient resources will be available to support that future debt service.

The Corporation’s financial statements at June 30, 2020 detail future debt service requirements totaling $2.5 billion with more than $1.5 billion due after year 2050. Currently, beyond required debt service reserves, the Corporation does not accumulate resources for future debt repayment – tobacco settlement amounts received in excess of required debt service are used for “turbo” or early redemptions.

The analysis should integrate the projections for US tobacco consumption and related settlement revenues with projections of the impact of turbo principal reductions and the amounts needed to service all TSFC debt.

**RECOMMENDATIONS**

- MC-2020-08a Perform periodic analyses of projected debt service requirements reflecting actual operating experience and other economic factors.
- MC-2020-08b Seek administrative support for the TSFC to facilitate financial reporting and other operating requirements.
Management’s Views and Corrective Actions:

The TSFC Board agrees with the recommendations and was working to establish an administrative support function separate from the State Budget Officer prior to the start of the COVID-19 pandemic, at which time such efforts were put on hold. This effort will resume and should be completed by summer 2021. Once in place, this new support will enable the TSFC to undertake projections and facilitate financial reporting requirements.

A TSFC website is in development with the cooperation of the Division of Information Technology and will be live by the end of FY 2021.

**Anticipated Completion Date:** July 30, 2021

**Contact Person:** Thomas A. Mullaney, Chair, TSFC
Thomas.mullaney@budget.ri.gov

LEGAL CASE TRACKING

Legal case tracking software must be implemented entity-wide to enhance the administrative management and control of pending legal matters.

There are inherent challenges in managing State legal matters due to the number of cases, multiple points of origination and the decentralized approach to controlling the caseload. Enhancements in the processes used to administer the legal caseload are clearly indicated, not only to ensure timely and appropriate actions, but also to ensure legal case information can be completely inventoried and analyzed for financial reporting purposes and to meet investor disclosure requirements.

As part of the State’s annual financial reporting and audit process, significant effort is spent gathering data about the legal challenges against the State with inquiries of both internal and external counsel. Internally, data is gathered from the various departmental legal counsels and accumulated within the Department of Administration.

Legal case tracking software has been acquired in fiscal 2021 and should be fully implemented entity-wide. Consistent use of the case tracking software should significantly improve management’s ability to (1) ensure key case actions are met timely, (2) enhance overall monitoring of the State’s legal matters both departmentally and at a state-wide level, and (3) facilitate comprehensive reporting of pending legal matters when required. Implementation should be coordinated with the Office of Attorney General to ensure all legal case information is available organization-wide. Additionally, electronic interface with the various court systems should be explored to bring the court notice information into the software application and essentially align the State’s processes with those of the Courts.

**RECOMMENDATION**

MC-2020-09 Implement the recently acquired organization-wide legal case tracking software to facilitate tracking and oversight of State legal matters throughout the organization.

Management’s Views and Corrective Actions:

Legal case tracking software is now available for all executive-branch agencies. The system went live on December 28, 2020. Final configuration, data migration and staff training is almost complete.

**Anticipated Completion Date:** April 30, 2021

**Contact Person:** Jennifer S. Sternick, Chief of Legal Services (Litigation)
Division of Legal Services, Department of Administration
Jennifer.sternick@doa.ri.gov
Management Comment 2020-10

REASSIGNMENT OF CERTAIN ACCOUNTING TASKS CURRENTLY PERFORMED BY BUDGET OFFICER

The State budget officer performs a variety of accounting-related tasks that should be reassigned to other State operating units.

Through a long evolutionary process, various accounting related tasks have been performed by the Budget Officer without reconsideration of whether that continues to be the appropriate assignment from a functional and control perspective. These include initiation and authorization of certain debt service payments, accounting and billing for the State Fleet Replacement Revolving Loan Fund, and initiation and authorization of certain disbursements from long-term debt proceeds held by trustees.

These tasks have been performed by the Budget Office due to their familiarity with these processes and functions and how they impact budgetary operations. However, they are recurring operational tasks that are distinct from budgetary functions and should be reassigned to divisions within the Department of Administration.

RECOMMENDATION

MC-2020-10 Reassign certain accounting functions currently performed within the Budget Office to other operational units within the Department of Administration.

Management’s Views and Corrective Actions:

As part of an ongoing transition of duties within the State Budget Office during FY 2021, responsibility for the payment of debt service on COPS transactions was transferred to the General Treasurer’s Office in the March 2021. Discussions are underway between the State Budget Office, the State Controller’s Office and the State Fleet Operations Office to determine which unit should have responsibility for various functions associated with the State Fleet Revolving Loan Fund. Certain other disbursements from bond funds or payments for unique programs may continue to be handled in the State Budget Office, but staff are being trained to carry out these functions in lieu of the State Budget Officer.

Anticipated Completion Date: June 30, 2021

Contact Persons: Thomas A. Mullaney, Executive Director/State Budget Officer Thomas.mullaney@budget.ri.gov

Joseph Codega, Deputy Budget Officer
Joseph.codega@omb.ri.gov

Management Comment 2020-11

RHODE ISLAND PUBLIC TRANSIT AUTHORITY

Certain operating and long-term liability metrics for the Rhode Island Public Transit Authority warrant enhanced oversight by the State to ensure the sustainability and availability of public transit service within the State.

The Rhode Island Public Transit Authority (RIPTA) receives significant State support for its operations and is reported as a discretely presented component unit within the State’s financial statements. Total State support (gas tax allocations) during fiscal 2020 to RIPTA was approximately $43.5 million.

The separately issued financial statements for RIPTA detail the status of the pension and retiree health care (OPEB) plans covering its employees. The financial statements detail that required employer contributions to the pension plan, totaling more than $10.5 million ($8.7 million represents the 2020 actuarially determined contribution amount), have been recognized for financial reporting purposes but were still owed to the pension plan at June 30,
2020. RIPTA provides retiree health care benefits on a pay-as-you-go basis and has not established a trust fund nor committed to funding OPEB benefits on an advance or actuarially funded basis.

RIPTA’s net pension liability and the total OPEB liability was $71.8 million (67% funded) and $71.3 million (0% funded), respectively, at June 30, 2020 (June 30, 2019 measurement date).

Even with substantial federal and state assistance, RIPTA has incurred operating deficits (not including capital contributions) in each of the last two fiscal years - $21.5 million in 2020 and $23.4 million in 2019. Due to the importance of providing statewide public transit services, the State should enhance its oversight of RIPTA and explore options to address the critical financial operating challenges and related funding issues facing the Authority.

**RECOMMENDATION**

MC-2020-11 Enhance oversight of RIPTA and explore options to address the critical operating and long-term liability funding issues facing the Authority.

**Management’s Views and Corrective Actions:**

The Office of Management and Budget agrees with the need for enhanced oversight of RIPTA. In response to the 2019 finding, the Office of Internal Audit conducted an audit of RIPTA, which was published on October 14, 2020. This audit contained several recommendations:

1. RIPTA should perform operational revenue and expense forecasting for a three to five-year span and revise/update the forecast each year.
2. RIPTA should perform a comprehensive financial risk assessment that is modeled after an established framework.
3. RIPTA should document a Strategic Plan for a three to five-year span that addresses risks and aligns with overall organizational needs.
4. The RIPTA Board Finance Committee should review the annual audit prior to presentation to the full Board.
5. Overtime policies and procedures should be documented and approved.
6. All policies and procedures should be reviewed and approved on an annual basis.
7. Cash management and investment policies and procedures should be documented and approved.

The OMB will meet periodically with RIPTA management to monitor progress towards these goals.

**Anticipated Completion Date:** June 30, 2021

**Contact Person:** Dorothy Z. Pascale, CPA, CFF, Chief, Office of Internal Audit
Dorothy.pascale@audits.ri.gov

**ESCROW LIABILITY ACCOUNT BALANCES**

**Monitoring and reconciliation of escrow liability account balances can be enhanced.**

Various General Fund escrow liability accounts have been established to account for funds on behalf of others and/or pending distribution, General Fund escrow liability balances totaled $46 million at June 30, 2020. For escrow liability accounts, the assets and offsetting liabilities are included on the State’s General Fund balance sheet but increases/decreases in these balances are not reported as fund revenues and expenditures nor are these balances subject to appropriation or budgetary controls.

Efforts to improve the monitoring and reconciliation of escrow accounts in recent years have included revising policies and procedures for agencies responsible for escrow liability accounts and reviews of account activity.
to ensure the proper account usage and accounting for the underlying funds within those accounts. While monitoring of escrow accounts improved in fiscal 2020, we noted the following exceptions:

- Certain reconciliations were not prepared/received from state agencies prior to the close of the fiscal year in accordance with policies and procedures to ensure that such amounts were accurately and appropriately reflected in the general ledger.

- There was insufficient resolution of reconciliation differences for certain accounts.

- A debit balance existed for one account indicating that disbursements exceeded funds on deposit or activity was mis-posted. Debit balances in escrow liability accounts are indicative of a potential problem and warrant prompt investigation.

- A transfer of funds which reduced the Medicaid fiscal agent escrow liability account was not recorded until four months into the subsequent fiscal year. A bank reconciliation highlighted the variance, but the required adjustment was not made.

Timely review and reconciliation of escrow liability accounts is important to ensure that transactions and balances in RIFANS are properly recorded for financial reporting purposes and to exercise appropriate fiduciary control over amounts held for others. When other agencies fail to support the reconciliation effort or there are unreconciled variances, the Office of Accounts and Control should have the authority to suspend account disbursements until resolved.

RECOMMENDATION

MC-2020-12 Enforce monitoring and reconciliation control procedures for escrow liability account balances.

Management’s Views and Corrective Actions:

The Office of Accounts and Control (A&C) has been instrumental in strengthening escrow account internal controls over the past two years:

- All material escrow accounts have been reviewed to determine if they are appropriately classified as escrow accounts and those determined not to be escrow accounts have been reclassified to a more appropriate natural account category.

- An escrow account reconciliation form has been designed that the agencies must prepare on a regular basis. Those reconciliations are required to be submitted to A&C at the end of each fiscal quarter.

- A&C has implemented procedures to monitor that the end of fiscal quarter reconciliations have been submitted in a timely manner.

- An escrow account request form must be completed by the agency and approved by A&C before a new escrow account can be created in RIFANS.

Regarding the exceptions noted in Management Comment 2020-12:

Management agrees that certain reports were not received in a timely manner. A&C sends out reminders to the agencies when the quarterly reports are due to help them submit their reports on a timely basis. A&C closely monitors which agencies have not submitted reports by the deadline and assertively follows-up with those agencies. In response to the A&C follow-up, all late reconciliations were eventually submitted. A&C was then able to review those reconciliations to ascertain if the escrow account was appropriately reflected in the general ledger. A&C will continue to monitor the timely submission of reports and follow-up with any agencies who do not submit their reports on time.

Management agrees that certain reconciliations have variances that cannot be easily reconciled. A&C is currently monitoring the progress of the agencies responsible for these reconciliations.
A&C reviewed the debit balance account referred to above during the normal review process and determined disbursements did not exceed funds on deposits and that activity had not been mis-posted. A&C reviews all material escrow accounts with debit balances to ensure they are appropriate.

A&C will contact the agency responsible for preparing and reviewing that bank reconciliation and request that they implement internal control procedures that will ensure that any adjustments required that are identified when reconciling a bank account be made in a timely manner.

Anticipated Completion Date: Ongoing

Contact Person: Margaret Carlson, Associate Controller
Margaret.carlson@doa.ri.gov

Management Comment 2020-13 (new comment)

UNRESOLVED BALANCE IN THE PUBLIC SERVICE CORPORATION TAX ESCROW ACCOUNT

Efforts should continue to resolve the unidentified remaining balance in the public service corporation tax escrow account.

Telecommunication companies annually declare the net book value of their tangible assets located in Rhode Island to the Division of Municipal Finance in accordance with Rhode Island General Law § 44-13-13. The Division of Municipal Finance calculates and collects the tax due and distributes the proceeds (net of a 0.75% administrative fee) to the municipalities based on percentage of population.

The collection and disbursement of the tax proceeds are accounted for in an escrow liability account. The telephone tangible tax escrow account continues to show an unresolved account balance that has grown year over year resulting in a balance of $7.5 million at June 30, 2020.

Efforts were made during fiscal 2020 to determine the underlying cause of the growth in the balance without resolution. A portion of the balance can be attributed to the 0.75% administrative fee which has not been transferred from the account for multiple years.

RECOMMENDATION

MC-2020-13 Determine the cause of the unresolved account balance in the Public Service Corporation Tax escrow account and make any required adjustments or distributions.

Management’s Views and Corrective Actions:

The Division of Municipal Finance will review the unresolved balance and make the appropriate adjustments.

Anticipated Completion Date: December 2021

Contact Person: Stephen Coleman, Chief, Division of Municipal Finance
steve.coleman@dor.ri.gov
OTHER POSTEMPLOYMENT BENEFIT (OPEB) FUNDING POLICIES

A formal funding policy should be adopted for the State’s OPEB plans which incorporates statutory provisions and key actuarial funding policies, including the frequency of actuarial audits and experience studies.

Comprehensive Funding Policy

Previously, accounting guidance was also used as the basis for “acceptable” funding policies with GASB defining acceptable actuarial methods, amortization periods, etc. Under current guidance (GASB Statements 74 and 75), GASB only defines the accounting and disclosure requirements for OPEB liabilities to be included in the financial statements of governments. For example, the accounting measures for determining the net OPEB liability to be included in a government’s financial statements reflects the fair value of OPEB plan assets at that date. For funding purposes, most plans use “asset smoothing” that tempers the volatility in required contribution rates due to significant market valuation changes in any one year.

Consequently, most governments need a separate policy statement to guide their funding decisions over time, while using the accounting measures in their financial statements prepared in accordance with generally accepted accounting principles. Best practices include recommending that governments establish and adopt comprehensive OPEB funding policies, which outline all the key provisions designed to responsibly fund an OPEB plan and calculate the employer actuarially determined contribution.

In Rhode Island, OPEB funding policies are a combination of legislatively enacted statutes and other measures adopted by the Board of the State Employees’ and Electing Teachers OPEB System. This requires accumulation of comprehensive OPEB funding policies that include statutory measures and other provisions adopted by the Board.

Policy for Actuarial Experience Studies and Actuarial Audits

Best practices for benefit plan administration include requiring periodic actuarial experience studies and actuarial audits. Experience studies are a regularly scheduled review of the reasonableness of the assumptions used in making the actuarial valuations of the plans and involves a more comprehensive investigation of actual experience and assumptions used in the valuations. The Employees’ Retirement System of Rhode Island (ERSRI) directs its actuary to perform experience studies of the pension system every three years. Actuarial audits are also recommended and involve engagement of another independent actuary to either reperform or review the actuarial valuations results. ERSRI has an actuarial audit performed at five-year intervals. These practices ensure that the assumptions used to measure the net OPEB liability (asset) of the plans and determine annual employer contributions are appropriate and that such measures have been determined consistent with the Actuarial Standards of Practice.

RECOMMENDATIONS

MC-2020-14a  Develop and adopt a formal OPEB funding policy that incorporates statutory provisions as well as funding and actuarial policies approved by the Board of the State Employees’ and Electing Teachers OPEB System.

MC-2020-14b  Adopt a formal policy for requiring periodic actuarial experience studies and actuarial audits for the OPEB plans within the State Employees’ and Electing Teachers OPEB System.

Management’s Views and Corrective Actions:

The OPEB Board agrees with the recommendations presented by the Auditor General. The Board will engage its actuary, Gabriel Roeder Smith, to assist in developing funding and actuarial policies for review and approval by the Board.

The Board adopted a policy to prepare annual actuarial studies beginning with FY 2019 and will establish a policy to implement experience studies and actuarial audits within the next year. In order to procure the best price, the Board may consider working with the Employee’s Retirement System to piggyback on RFPs the system may be issuing for such services.
INCREASE USE OF AUTOMATED CLEARINGHOUSE (ACH) PAYMENTS

The State should continue to convert more disbursements to ACH and reduce the volume of checks and wire transfers.

The State utilizes checks, ACH payments, and wire transfers to disburse payments. For fiscal 2020, approximately 70% of RIFANS disbursements were processed as check payments while 29% were ACH and 1% were made through wire transfers. Disbursements are also processed through other systems utilized by the State. For example, most Medicaid provider payments are processed as ACH disbursements and most benefit payments are processed as electronic benefit payments.

The processing and banking costs vary for each payment type with wire transfers being the costliest. ACH bank processing costs, per transaction, are the lowest at $.02 per item. Wire transfers are typically utilized for the most time sensitive payments. Checks involve printing, mailing, and reconciliation costs in addition to a higher per transaction banking cost.

ACH payments are controlled entirely through the accounting system and require the least amount of other administrative processing steps. The majority of disbursements can be scheduled for payment as ACH transactions adding predictability to the State’s overall cash management objectives.

Recently implemented industry-wide enhancements to the ACH process allow more flexibility in scheduling and the subsequent settlement of ACH payments such that same-day ACH is achievable for individual ACH transactions up to $25,000. Exploring these features may enhance the State’s ability to enhance the volume of payment made through ACH.

RECOMMENDATION

MC-2020-15 Explore options to increase the use of ACH payments in lieu of checks and wire transfers. Utilize industry-wide changes which allow same-day ACH to facilitate timely payments and funds transfer.

Management’s Views and Corrective Actions:

Management agrees with this recommendation. We are continuing to explore options to increase the use of ACH payments while ensuring appropriate controls are incorporated in the enrollment and change process.

Anticipated Completion Date: March 2022

Contact Person: Louise Sawtelle, Associate Controller
Louise.sawtelle@doa.ri.gov
ACCOUNTING CONTROLS OVER CAPITAL PROJECTS

Controls over accumulating capital asset additions for project-based, multi-year projects can be improved. Certain project-based expenditures are reclassified in the accounting system to meet capital asset system processing requirements. This results in a change to the original and appropriate expenditure object classification.

Many of the State’s material capital assets are project-based rather than single item acquisitions. The process developed within the RIFANS accounting system to identify capital expenditures is based on activity in specific natural accounts. Consequently, expenditures are frequently reclassified to the specific capital outlay natural accounts to trigger recording in the capital assets module. For project-based expenditures that involve a variety of types of expenditures, the original character of the underlying expenditures is subsequently lost in the accounting system. For example, on a building project, amounts spent for architectural and engineering services would be reclassified and lose their original character. Similarly, on a large IT development project like UHIP/RIBridges, many of the project-based expenditures were reclassified to the capital outlay natural accounts from information technology and consulting natural accounts.

As many of the State’s material capital asset acquisitions involve project-based expenditures, the State’s procedures for accumulating such costs should accommodate a project based rather than individual asset acquisition approach. The original character of expenditures should remain even when accumulated as a project-based capitalized item.

The RIFANS capital asset module is programmed to flag expenditures in designated natural account codes as potential capital asset additions. This works well for single capital items but not as effectively for projects that involve multiple categories of expenditures and span more than one fiscal year. Independent processes have been developed which include accumulation of project costs on spreadsheets external to RIFANS. This process is manually intensive and can lead to error or omission of capital projects if system coding or system query is not performed accurately.

RECOMMENDATION

MC-2020-16 Implement a project-code accumulation of capital outlay expenditures within the capital asset module.

Management’s Views and Corrective Actions:

Management agrees that it would be more efficient if the capital assets module afforded the flexibility to automatically accumulate capital asset project expenditures in enough detail to capture the underlying character of the various expenditures. However, given the inherent limitations of the capital asset module software and time constraints, management does not consider it practical to pursue this recommendation at this time. In addition, management believes the independent processes which are mentioned in the management comment are sufficient to mitigate risks of material error or omission.

Anticipated Completion Date: Ongoing

Contact Person: Sandra Morgan, Supervising Accountant
Sandra.morgan@doa.ri.gov
STATE FLEET REPLACEMENT REVOLVING LOAN FUND

Operating and accounting procedures for the State Fleet Replacement Revolving Loan Fund require review to ensure that fund operations are consistent with its statutory purpose as a revolving loan fund.

The State Fleet Replacement Revolving Loan Fund was created to act as an internal financing mechanism for vehicles by state agencies. The fund was capitalized by a transfer of $7,350,000 from the State’s General Fund in fiscal 2013. Use of the fund mitigates the budgetary impact of purchasing a vehicle in one fiscal year and spreads the cost over the vehicle’s service period. The fund records an internal loan receivable from the state agency acquiring the vehicle. Loan payments replenish funds available for new loans and vehicle acquisitions. Most of the functions of the fund are currently performed by the Budget Office in connection with its responsibilities for capital budgeting.

Establishment of loans receivable and repayments terms should be formalized and documented to enhance controls over the operation of the revolving loan fund. Operating and accounting procedures for vehicles acquired/financed through the revolving loan fund should be consistent with the State’s capital asset accounting procedures and the process to prepare the State’s government-wide financial statements.

Operating and accounting procedures need to be reviewed and aligned to formalize loan repayment terms and avoid unintended complications in the State’s capital asset reporting and government-wide financial statement preparation. Responsibility for the fund’s accounting procedures and records should be transferred from the Budget Office to the Central Business Office or the Office of Accounts and Control.

Operating and accounting procedures were not appropriately established at fund creation. In most instances, the department or agency acquiring the vehicle purchases through their accounts and an expenditure credit is later processed to reimburse the expenditure from the revolving loan fund. This results in an unintended misstatement in the State’s government-wide (full accrual) financial statement, as the fund level activity is collapsed and converted to the full-accrual accounting basis.

RECOMMENDATIONS

MC-2020-17a Perform a comprehensive review of the operational and accounting procedures for the State Fleet Replacement Revolving Loan Fund.

MC-2020-17b Transfer responsibility for the daily operations of the fund to the Central Business Office or the Office of Accounts and Control.

Management’s Views and Corrective Actions:

As mentioned under Management Comment 2020-10, discussions are underway between the State Budget Office, the State Controller’s Office and the State Fleet Office to determine which unit should have responsibility for various functions associated with the State Fleet Revolving Loan Fund. The State Budget Office will remain involved in determining the allocation of loans to state agencies as part of the annual capital budget process, but will transfer responsibilities for establishing loans, annual billing of lease payments and ongoing accounting/monitoring of the loan fund to other units within the Department of Administration.

Anticipated Completion Date: June 30, 2021

Contact Persons:

Thomas A. Mullaney, Executive Director/State Budget Officer
Thomas.mullaney@budget.ri.gov

Joseph Codega, Deputy Budget Officer
Joseph.codega@omb.ri.gov

Peter Keenan, State Controller
Peter.keenan@doa.ri.gov
SUBRECIPIENT AND GRANTEE MONITORING - CENTRALIZED REVIEW OF AUDIT REPORTS

Required monitoring of subrecipients and other State grantees could be made more effective and efficient by centralizing certain monitoring aspects at a statewide rather than department-wide level.

Subrecipients and grantees assist the State in carrying out various programs funded with State and/or federal monies and include entities such as municipalities, community action programs, local educational agencies and non-profit organizations. Monitoring of subrecipients, which is required when the State passes through federal funds to another entity, varies depending on the nature of the program or activity but always should include review of subrecipient audit reports. Federal regulations require any entity that expends $750,000 or more in federal assistance [direct or pass-through (e.g., State)] to have a Single Audit performed. Copies of the Single Audit Reports must be provided to the pass-through entity and the federal government.

Receipt and review of subrecipient or grantee audit reports is now performed on a decentralized basis as responsibility is vested in numerous departments. The State can improve, and make more efficient, its subrecipient and grantee monitoring practices by centralizing the audit report review function.

The State is planning a grants management system which includes specific functionalities to enhance controls over grant awards and monitoring activities for subrecipients. Centralized review of subrecipient audit reports would appear to be consistent with the planned functionalities of the new grants management system.

We have reported various deficiencies in the process used to review subrecipient audit reports. Considerable advantages can be gained by centralizing the subrecipient and grantee monitoring function within one unit of State government. This will raise the level of assurance that subrecipients and grantees comply with applicable laws and regulations and both state and federal funds are spent as intended. It will also reduce the amount of resources devoted to this effort and achieve other efficiencies.

RECOMMENDATIONS

MC-2020-18a Centralize subrecipient and grantee monitoring procedures related to receipt and review of Single Audit Reports and other audit reports within one agency. This function should be staffed with individuals trained in governmental accounting and auditing matters to allow effective review of the audit reports.

MC-2020-18b Build a database of all subrecipient and grantee entities that receive state and/or federal grant funding.

Management’s Views and Corrective Actions:

The Grants Management Office recognizes the risks and control weaknesses noted.

The Uniform Grant Guidance (UGG) (2 CFR 200.332) defines the requirements for pass through entities for subrecipient monitoring, including single audit review. The federal Office of Management and Budget in revisions to the Uniform Grant Guidance (Federal Register Notice 2019-OMB-0005) provided further clarification on these requirements and responsibilities.

Specifically, the Office of Management and Budget clarifies that pass through entities are only responsible for resolving audit findings specifically related to their subaward. In addition, if a subrecipient has a current single audit report posted in the Federal Audit Clearinghouse and has not otherwise been excluded from receipt of federal awards, the pass through entity may rely on the subrecipient’s auditors and cognizant agency’s oversight for routine audit follow-up and management decisions. Finally, the UGG states that such reliance does not eliminate the responsibility of the pass-through entity to manage risk through subaward monitoring.

Given the UGG changes, we will not be adopting the recommendation as stated. However, we will mitigate risk and increase controls through the development and implementation of a statewide continuous subrecipient monitoring protocol which will include risk assessment, desk and/or onsite monitoring, and follow-up on relevant audit findings.
The implementation of the Grant Management System will result in a comprehensive database of state grantee awards, subrecipients, and subawards, including monitoring activities. Subrecipients will be users of the Grants Management System. Subrecipient data, i.e., risk assessments, monitoring, and single audits and alternative financial audits will be in the system and viewable to all state agency grant managers. We expect the implementation of the Grant Management System will facilitate coordination and communication among state agencies, and between state agencies and subrecipients.

**Anticipated Completion Date:**

GMS is expected to go live by June 30, 2022. Adoption of statewide subrecipient monitoring protocol will be completed by June 30, 2023.

**Contact Person:**

Laurie Petrone, Director, Grants Management Office
Laurie.Petrone@omb.ri.gov

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**Management Comment 2020-19**

**SURPLUS FURNITURE AND EQUIPMENT**

Improve the awareness and communication of available surplus furniture and equipment by creating a searchable, web-based functionality.

The State disposes of and replaces various capital assets during the normal course of operations. State departments and agencies are required to report assets deemed surplus to the Office of Accounts and Control (for accounting purposes) and ultimately to the “surplus property officer”. The intent is that capital assets declared surplus by one agency could potentially be used by another State agency, municipality, or local school district, etc.

While the surplus property reporting process is in place, there is no practical means for other State agencies, municipalities, or school districts, etc., to learn of the availability of assets deemed surplus that are now available for potential use. Clearly, not all assets declared surplus are usable and, particularly in the case of computer equipment, may be outdated technologically. However, establishing a searchable database of surplus assets would greatly increase the likelihood that still useful assets could be matched to those with a potential need.

**RECOMMENDATION**

MC-2020-19 Implement a statewide network or database of “surplused” furniture and equipment assets to facilitate notification and use by other state or local entities.

**Management’s Views and Corrective Actions:**

Management agrees with the recommendation and has entered into a contractual agreement with GovDeals® to inventory all State surplus assets and post the available inventory to the DCAMM website dcamm.ri.gov/services/surplus-property-request.php. Available surplus inventory will be available to both State and Municipal agencies prior to public auction.

**Anticipated Completion Date:**

September 2021

**Contact Persons:**

Artie Jochmann and Carole Cornelison
Division of Capital Asset Management & Maintenance
Carole.Cornelison@doa.ri.gov
Arthur.Jochmann@doa.ri.gov