



# Audit Summary

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## State of Rhode Island Findings and Management Comments Resulting from Fiscal 2022 Financial Statement Audit

Fiscal Year Ended June 30, 2022

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, 2022. The State's management has responsibility for, and maintains internal control over, financial reporting. *Government Auditing Standards (GAS)* require that we communicate deficiencies in internal control over financial reporting and material noncompliance based on our audit.

The State has begun planning for the implementation of a comprehensive Enterprise Resource Planning (ERP) system to replace and enhance key statewide financial and administrative systems. This effort is intended to address long-standing issues which negatively impact controls over operations and financial reporting resulting from the need for (1) increased investment in information technology to keep pace with citizen expectations, (2) rapid technology advancements, (3) meeting federal program compliance mandates, and (4) addressing business continuity risks.

The scope and complexity of the ERP system implementation project and the required resources and disciplined project management needed to ensure success should not be underestimated. The implementation should focus on ensuring a successful outcome through effective management of critical risks. The State should specifically minimize customization of the cloud-based ERP solution being employed and the amount of disparate IT solutions that it attempts to integrate into its full ERP design. Such changes can often limit the desired integration of the ERP system and significantly complicate the maintenance and support of the system going forward.

Controls within the systems used to process unemployment insurance claims are insufficient to prevent fraudulent unemployment insurance benefit payments, especially the Pandemic Unemployment Assistance benefits. While decreased from the prior year with expanded pandemic benefits ending in September 2021, the Department of Labor and Training still identified significant amounts of fraudulent benefits paid to claimants. The State's system for payment of unemployment insurance claims and collection of employment taxes is outdated and needs further modernization.

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 its design

and operation. 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.

An excessive volume of journal entries were recorded within the accounting system, weakening controls over the appropriate authorization and classification of expenditures, and limiting transparency regarding the underlying transactions. Additionally, significant material audit adjustments were required during the audit indicative of control deficiencies over financial reporting that require immediate corrective actions.

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, 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 activity - representing nearly 37% of the State's General Fund expenditures. The State will need to ensure that the design of the next Medicaid Management Information System will provide the functionalities needed to enhance controls over program operations and fiscal oversight.

### Summary of findings and management comments related to the audit of the State's Fiscal 2022 Financial Statements

	Primary government	Component units	Total
<b>Findings related to the financial statements</b>			
Material weaknesses in internal control	10	4	14
Significant deficiencies in internal control	16	5	21
Material noncompliance		1	1
Other reporting - GAS	1		1
<b>Management Comments</b>	10		10

The State must 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.

The State updated its current cybersecurity readiness and has begun to identify risk mitigation priorities and the resources needed

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## Findings and Management Comments from the Audit of the State's Fiscal 2022 Financial Statements

to implement necessary corrective action. The State does not currently have sufficient resources dedicated for the size and complexity of State operations and risk mitigation is not progressing quickly enough.

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 State's current practices for periodic logical access and privilege reviews at both the application and network levels need improvement. Practices for database logging and activity monitoring at the database level also need improvement.

The complexity of Treasury operations has increased substantially over the years without significant modifications to the State's investment in technology and personnel to support those efforts and to ensure internal control best practices are maintained.

Fiscal closing procedures at the Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals need improvement to ensure the completeness and accuracy of reported accruals at year-end.

Within the Intermodal Surface Transportation Fund, controls can be enhanced over the presentation of financial statements to ensure consistent and accurate reporting of fund activity in accordance with generally accepted accounting principles.

Controls over the identification of transportation infrastructure assets have been improved but can be further enhanced to ensure the accuracy of such amounts. Controls should be improved to record the disposal of infrastructure assets when retired or replaced.

Controls over the preparation of the Schedule of Expenditures of Federal Awards (SEFA) can be enhanced to ensure all program activity is accurately reported to the proper Assistance Listing Number and amounts passed through to subrecipients are appropriately classified and reported.

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.

In addition to findings that impact Statewide controls over financial reporting and information security, our report includes findings specific to the Rhode Island Lottery, Employees' Retirement System of Rhode Island, and Rhode Island State Employees' and Electing Teachers OPEB System.

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 discretely presented 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 10 management comments that highlight opportunities for enhancement of financial-related operational, policy, or accounting control matters.

The scholarship disbursement function of the RI Division of Higher Education Assistance (Division) does not merit administration as a separate financial reporting entity and the lack of Division personnel prevent segregation of duties within its financial operations. The remaining activities of the Division should be accounted for within the State's General Fund rather than as a discretely presented component unit.

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.

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

Third-party insurance reimbursements for COVID testing totaling \$6.7 million at June 30, 2022 are pending (1) credit to the federal government for previously reimbursed costs or (2) recognition as general revenues.

Management's response to the findings and comments, including planned corrective actions, are detailed in our report.

**The audit report is available on our website - [www.oag.ri.gov](http://www.oag.ri.gov) or by calling the office at 401.222.2435**