



# Audit Summary

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## State of Rhode Island

### Single Audit Report and Management Comments

Fiscal Year Ended June 30, 2014

Our annual audit of the State of Rhode Island for the fiscal year ended June 30, 2014 resulted in findings and recommendations related to many of the State's key operations including State accounting systems, information technology controls, and the administration of federal programs such as Medicaid. These findings and recommendations are contained in two audit reports, which result from a comprehensive audit of the State's financial statements and its administration of federal programs for fiscal 2014. These reports supplement our Independent Auditor's Report on the financial statements as included in the State's Fiscal 2014 Comprehensive Annual Financial Report completed in December 2014.

The *Single Audit Report* is required by both State and federal law as a condition of continued federal assistance. Our report includes 77 findings as summarized below.

#### Summary of findings included in the *Single Audit Report*

	Primary government	Component units	Total
<b>Findings related to the financial statements</b>			
Material weaknesses in internal control	9	3	12
Significant deficiencies in internal control	9	3	12
Material noncompliance		1	1
<b>Findings related to the administration of federal programs</b>			
Material weaknesses in internal control	21		21
Significant deficiencies in internal control	14	12	26
Material noncompliance/material weakness in internal control	2		2
Other noncompliance matters	2	1	3
<b>Total</b>	<b>57</b>	<b>20</b>	<b>77</b>

The *Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance – Schedule of Findings and Responses – June 30, 2014 Audit* - includes the financial statement findings and 28 management comments, which are less significant findings that represent opportunities for efficiency or enhancing controls.

### Financial Statement Related Findings

We identified weaknesses in the State's internal control over financial reporting and made other recommendations to enhance controls or result in other operational efficiencies as part of our audit of the State of Rhode Island's financial statements for the year ended June 30, 2014. The State's management has responsibility for, and maintains internal control over, financial reporting. *Government Auditing Standards* require that we communicate deficiencies in internal control over financial reporting based on our audit.

### Audit Highlights

- Expenditures of federal awards totaled \$4.5 billion for fiscal 2014 – more than \$1.2 billion was non-cash awards principally for federal loan and loan guarantee programs.
- Medicaid is the single largest federal program administered by the State with total program expenditures totaling \$2.3 billion in FY 2014 – the federal government shared \$1.3 billion of that cost.
- We reported 25 findings related to accounting controls and financial reporting matters as well as controls over the State's information technology systems (including seven reported by auditors of the component units).
- We also reported 52 findings related to compliance with federal program requirements. These compliance requirements generally relate to allowable costs, eligibility, cost sharing or matching provisions, and reporting.
- We also reported 28 management comments, which are less significant findings that represent opportunities for efficiency or enhancing controls.

Management has been responsive in addressing control deficiencies identified in prior audits – those that remain are generally conditions that have existed for several years and will likely require additional information technology (IT) investment. Developing new or

enhancing existing systems demands significant monetary and technical resources. There are a multitude of operational benefits to be derived from these IT investments in addition to enhancing internal control over financial reporting.

The common thread underlying most of these control deficiencies is outdated or incomplete systems. RIFANS, the State's centralized accounting system, is largely effective and reliable for the functionalities that are operational; however, there is substantial opportunity for further efficiencies through completion of the State's Enterprise Resource Planning (ERP) system. These functional gaps result in control deficiencies in specific areas. For example, RIFANS does not meet the State's needs in three important and interrelated areas – time reporting/payroll, grants management, and cost allocation – functions integral to overall State operations. The State needs to develop a strategic plan to complete the ERP system and address business continuity risks resulting from certain critical legacy systems.

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

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

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

Concern given the State's complex computing environment. Additionally, certain standard IT control processes, such as program change control, have not been implemented uniformly on a state-wide basis.

We also reported 28 management comments, which are less significant findings that highlight financial-related operational, policy or accounting control matters. New fiscal 2014 management comments address adoption of the updated COSO internal control framework, accounting for DCYF trust funds, accumulating data for the disclosure of significant commitments, monitoring of internal service funds, federal reimbursements to the Veterans' Home, authorized bank signatories, and accounting for federal disaster declarations. Management comments repeated from prior years address subrecipient monitoring, drawdown of federal funds, certain taxation processes, and other accounting and financial reporting issues.

## Federal Program Findings

The State's fiscal 2014 expenditures of federal awards totaled \$4.5 billion (including component units). Federal assistance consists of both direct cash and noncash awards (e.g., loan and loan guarantee programs and donated food commodities).

Federal assistance is received under a wide variety of more than 400 individual programs. Many programs are jointly financed with federal and state funding -- Medicaid is the single largest program with total fiscal 2014 expenditures totaling \$2.3 billion. The federal government shared \$1.3 billion of that cost.

Consistent with federal guidelines, we tested 91% of the total expenditures of federal awards as major programs. Major program expenditures are summarized in the pie chart on the following page by functional category.

Compliance requirements vary for each program; however, most programs have federal requirements relating to (1) costs which are allowable for reimbursement, (2) individuals who may be eligible for benefits, (3) reports required to be submitted to the federal government, (4) cost sharing or matching provisions, and (5) the timing of reimbursement from the federal government.

For most of the programs tested, we found that the State complied in all material respects with applicable compliance requirements. We reported material noncompliance for the Nutrition Cluster, Highway Planning and Construction Cluster, Special Education Cluster, and the Race to the Top Incentive Grants program.

## Highlighted Federal Program Findings

### Medicaid:

- Controls over Medicaid eligibility were weakened during fiscal 2014 due to the implementation of the new Unified Health Infrastructure Project system used to determine Medicaid eligibility. Data interfaces required to validate self-attested Medicaid applicant information were not operating as designed. (*Finding 2014-067*)
- The State needs to develop a comprehensive risk assessment and monitoring plan to ensure that Medicaid managed care expenditures are validated and settled each contract period. (*Finding 2014-068*)

**Unemployment Insurance** - The EmployRI computer system is used to facilitate claimant job searches and employer recruitment. We found that in certain situations, a claimant actively receiving an unemployment benefit may actually be classified as "inactive" thereby eliminating the claimant from the pool of workers available to a prospective employer. (*Finding 2014-033*)

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**Highway Planning and Construction** - RIDOT should further enhance its quality assurance program to ensure that required materials tests are performed and documented consistent with federal and RIDOT policy. (Finding 2014-035)

**Vocational Rehabilitation** - The Office of Rehabilitation Services (ORS) must immediately review the system access of all users within its automated case management system to limit the number of individuals with system administrator access roles and to ensure appropriate segregation of duties. (Finding 2014-052)

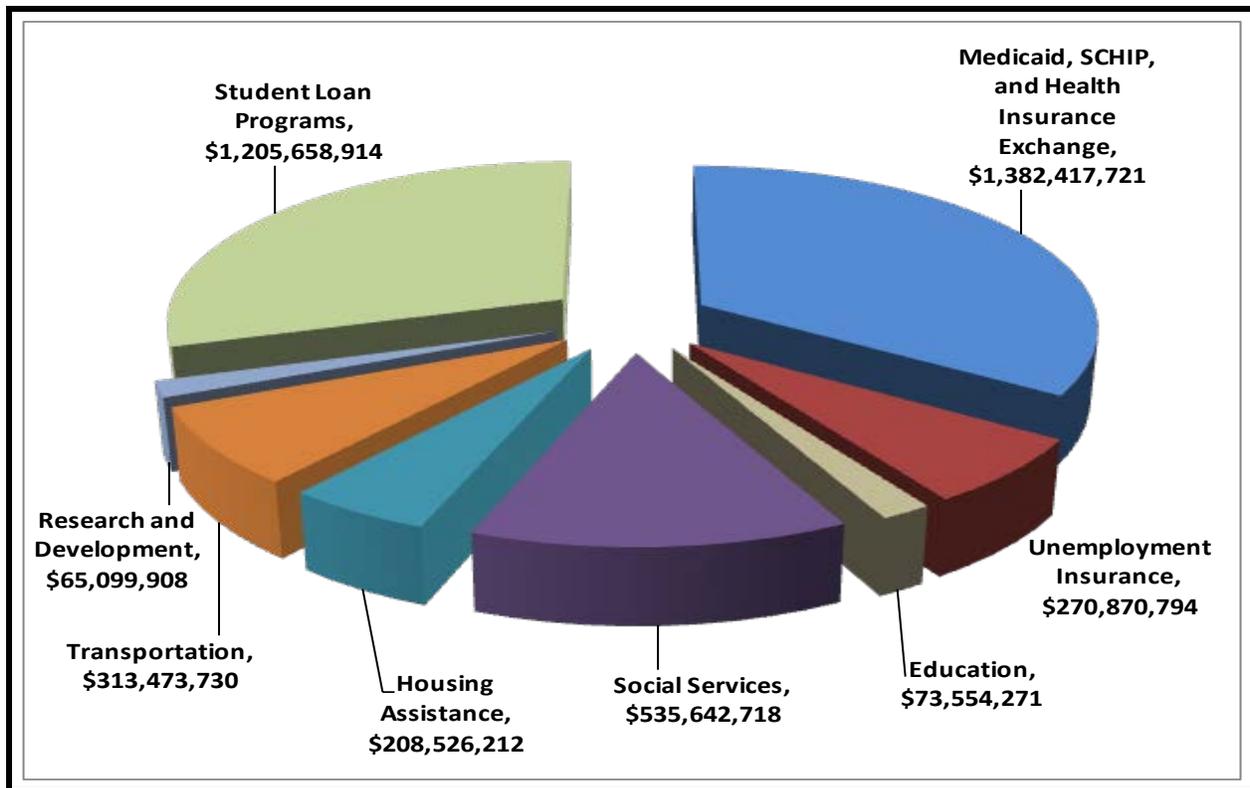
**Monitoring of Subrecipients** - The Departments of Education, Human Services, and Transportation need to improve required monitoring of federal funds passed through to subrecipients. (Findings 2014-036, 2014-055, 2014-061, and 2014-063)

**Race to the Top – Early Learning Challenge Grant** - RIDE can improve the monitoring of activities of Participating State Agencies (PSA) utilizing funding from the Early Learning Challenge Grant to ensure all PSA costs incurred are necessary and reasonable and comply with federal cost principles. (Finding 2014-056)

**HealthSource RI** - We found that insufficient documentation was obtained for certain vendor payments and personnel costs allocated to the federal grants used to build and support the State's Health Insurance Exchange. (Finding 2014-057)

**Temporary Assistance for Needy Families (TANF)** - Controls over eligibility can be enhanced by timely resolution of Income Eligibility Verification System (IEVS) data match information posted to recipient case records. While improved compared to prior years, IEVS data matches were not resolved timely in 10 out of 40 case files tested. (Finding 2014-060)

## Fiscal 2014 Federal Award Expenditures Tested as Major Programs - Summarized by Function



A corrective action plan, prepared by the State's management, is included in the report, which addresses each finding and provides a timetable for implementation. A Summary Schedule of Prior Audit Findings is also included which reports the status of findings from prior audits.

The State's Single Audit Report was submitted to a federal clearinghouse for such reports – this data is then made available to all federal funding agencies.

Copies of this report are available on our website [www.oag.ri.gov](http://www.oag.ri.gov)