



Audit Summary

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State of Rhode Island Single Audit Report Fiscal Year Ended June 30, 2016

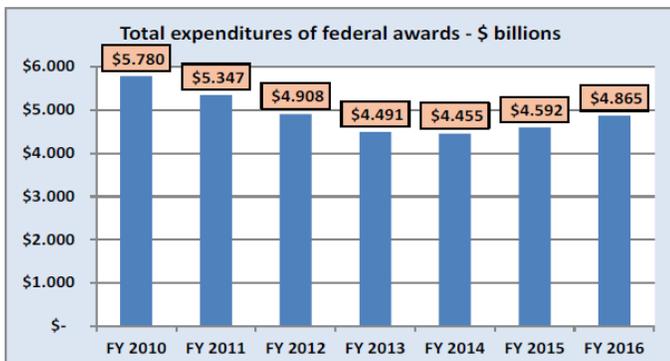
We completed our annual Single Audit of the State of Rhode Island for the fiscal year ended June 30, 2016. The *Single Audit Report*, which is required by both State and federal law as a condition of continued federal assistance, resulted in findings and recommendations related to many of the State's key operations and the administration of federal programs such as Medicaid.

In addition to federal compliance related findings, the Single Audit Report includes the State's financial statements and findings related to the financial statements, which had been previously communicated. The State's Fiscal 2016 Comprehensive Annual Financial Report was completed and available in December 2016.

Federal funding represents more than 41% of the State's General Fund expenditures and is the State's second largest revenue source. Fiscal 2016 expenditures of federal awards totaled \$4.9 billion (including component units). Federal assistance consists of both direct cash and noncash awards (e.g., loan and loan guarantee programs and federally donated immunization vaccines).

Many programs are jointly financed with federal and state funding -- Medicaid is the single largest program with fiscal 2016 expenditures totaling approximately \$2.6 billion. The federal government shared \$1.6 billion of that cost.

Fiscal 2016 expenditures of federal awards increased \$273 million, following declines in previous years largely due to the phase-out of federal stimulus funding (American Recovery and Reinvestment Act). More recently in fiscal 2016, reductions in federally insured student loan balances and reductions in unemployment insurance benefits were offset by increases in Medicaid funding due to the Affordable Care Act.



The Single Audit Report includes 73 findings as summarized in the following table. Of the findings, 42 relate to federal programs including programs administered by component units of the State (e.g., URI, RIC, and CCRI) and 31 findings are related to the financial statements.

Summary of findings included in the 2016 Single Audit Report			
	Primary government	Component units	Total
Findings related to the financial statements			
Material weaknesses in internal control	10	2	12
Significant deficiencies in internal control	14	3	17
Other compliance matters	1	1	2
Findings related to the administration of federal programs			
Material weaknesses in internal control	12		12
Significant deficiencies in internal control	21	7	28
Material noncompliance / material weakness in internal control	2		2
Total	60	13	73

Key findings related to the financial statements are highlighted below:

- The State lacks a strategic plan to (1) coordinate needed replacements/enhancements to its key statewide financial systems and (2) ensure that critical legacy financial systems, such as the payroll system, which pose a business continuity risk, will be available to support State operations. Because the State has opted to utilize various independent software solutions, the plan is critically important. Without a comprehensive plan, there is substantial risk that the intended integration of various components may not be achieved.
- Overall, the State has not sufficiently addressed information technology (IT) security risks, an increasing concern given the State's very complex computing environment. The State needs to ensure its IT security policies and procedures are current and well communicated. Assessments of compliance for all critical IT applications have not been performed - systems deemed to pose the most significant operational risk must be prioritized.

Federal assistance is received under a wide variety of more than 450 individual programs. Consistent with federal guidelines, we tested 83% of the total expenditures of federal awards as major programs. Major programs are defined based on total dollars expended and risk. Major program expenditures are summarized in the pie chart on the following page by program type.

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

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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 Unemployment Insurance and Low-Income Home Energy Assistance Programs.

Findings related to federal programs are highlighted below:

Medicaid and Children’s Health Insurance Program:

- We were unable to collectively evaluate the State’s compliance with federal regulations regarding recipient eligibility due to lagging eligibility redeterminations, incomplete Medicaid Eligibility Quality Control reviews, data mismatches between the eligibility and claims payment systems, and insufficient access to comprehensive case data. These factors were all related to implementation of the United Health Infrastructure Project (UHIP) integrated eligibility system.
- Eligibility data discrepancies exist between the UHIP system and the claims/capitation payments system (MMIS). The volume of differences is significant and the underlying causes have not been sufficiently determined. This impacts controls to ensure payments are only made on behalf of eligible individuals and increases the risk that duplicate managed care organization (MCO) capitation payments could be made.
- The Executive Office of Health and Human Services (EOHHS) lacks strong oversight procedures regarding fiscal monitoring and contract settlement for its MCOs. MCO capitation payments represent nearly 75% of all Medicaid outlays. EOHHS needs to develop a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled each contract period. More stringent audit and financial monitoring procedures should be employed.
- Governance for the UHIP development project must be enhanced to ensure contractual requirements are met by the lead vendor and others and also to ensure that system defects and other

implementation issues are identified, prioritized and corrected on a timely basis.

State Planning and Establishment Grants for the Affordable Care Act’s Exchanges Program – HealthSource RI can enhance its controls and related documentation supporting the allowability of costs reimbursed through the grant.

Low-Income Home Energy Assistance Program (LIHEAP) – The Department of Human Services did not comply with the period of performance requirement for the LIHEAP grant - \$5.0 million of awards were not expended or obligated by the required date.

Highway Planning and Construction – The Rhode Island Department of Transportation (RIDOT) should enhance its quality assurance program to ensure that required materials tests are performed and documented consistent with federal regulations and RIDOT policy.

Community Development Block Grant – The Office of Housing and Community Resources should improve its monitoring of subrecipients.

Preparation of the Schedule of Expenditures of Federal Awards – Controls need to be implemented to identify amounts passed-through to subrecipients within the State’s accounting system, which is the basis for preparing the schedule required by the Uniform Guidance.

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.

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

Fiscal 2016 Federal Award Expenditures Tested as Major Programs – Summarized by Program Type

