



# Audit Summary

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## State of Rhode Island Single Audit Report Fiscal Year Ended June 30, 2017

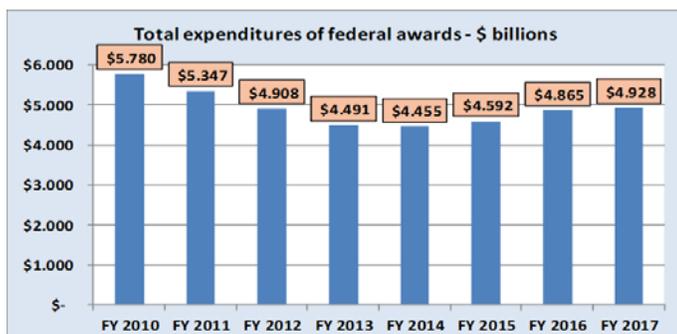
We completed our annual Single Audit of the State of Rhode Island for the fiscal year ended June 30, 2017. The **Single Audit Report**, which is required by both State and federal law as a condition of continued federal assistance, resulted in findings and recommendations related to many of the State's key operations and the administration of federal programs such as Medicaid.

The Single Audit Report includes the State's financial statements (and our Independent Auditor's Report thereon) which were previously communicated in the State's Fiscal 2017 Comprehensive Annual Financial Report.

Federal funding represents approximately 40% of the State's General Fund expenditures and is the State's second largest revenue source. Fiscal 2017 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, donated food commodities and vaccines).

Many programs are jointly financed with federal and state funding -- Medicaid is the single largest program with fiscal 2017 expenditures totaling approximately \$2.6 billion. The federal government shared \$1.6 billion of that cost.

The graph below depicts the changes in total expenditures of federal awards for fiscal years 2010 to 2017. The decrease in aggregate federal funding in years 2010 through 2014 is largely due to the phase-out of federal stimulus funding (ARRA) which resulted in significant expenditures in fiscal 2010 and 2011. More recently, reductions in federally insured student loan balances and unemployment insurance benefits are offset by increases in Medicaid funding due to the Affordable Care Act.



### Financial Statement Findings

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. The State has already experienced such integration issues and halted work on a time and effort reporting system due to an inability to integrate with other State systems. The State has expended \$2 million (\$1.1 million to the software vendor and \$900,000 for internally allocated personnel costs) on the project to date.

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

The complexity of Medicaid program operations adds to the challenge of accurately accounting for all Medicaid program related financial activity within the State's financial statements. Program changes relating to Affordable Care Act (ACA) provisions, complications relating to the State's implementation of RIBridges, and various State initiatives that have changed how services are delivered and providers are reimbursed have added to the program's financial complexity and weakened overall controls over program operations. Medicaid is the State's single largest program activity - representing nearly 25% of the annual budgeted outlays. Consequently, the financial aspects of this program are material to the State's financial reporting objectives.

The State's Office of Management and Budget (OMB) has not fully addressed all the required functionalities outlined in the General Laws regarding oversight of federal grants within the State.

Certain duties performed by the Office of the General Treasurer are not adequately segregated resulting in control deficiencies. Statewide accounting controls over receivables can be enhanced.

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.

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Software updates were not installed timely for the RIFANS accounting system which resulted in increased security risk and uncorrected software functionality issues identified by the software developer.

The Executive Office of Health and Human Services (EOHHS) authorized more than \$200 million in system payouts and manual disbursements in fiscal 2017, 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. Such amounts are not easily identified or quantified by the Medicaid Management Information System (MMIS).

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, well communicated and complied with. Assessments of compliance for all critical IT applications have not been performed - systems deemed to pose the most significant operational risk must be prioritized.

The State did not perform tests of its disaster recovery plan during fiscal years 2015, 2016 and 2017. This reduces the assurance that all mission critical systems can be restored should a disaster disable or suspend operations.

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

Implementation of a new Taxation IT system (STAARS) presented issues impacting financial reporting due to processing timeframes for tax returns held in suspense. This affected accruals based on historical processing timelines and complicated financial reporting estimates due to the uncertain effect of returns that had not fully processed at June 30, 2017.

Control procedures can be improved to accumulate the data needed to disclose tax abatement agreements and taxes foregone because of those agreements by deriving such information from the Division of Taxation's STAARS system. Such disclosures were newly required in the fiscal 2017 financial statements.

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

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

The Division of Taxation can enhance policies and operating procedures to restrict access to personally identifiable information and to ensure the effectiveness of the business continuity plan.

Critical Division of Taxation back-up data files are not stored off-site – a recommended disaster recovery best practice.

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

The Department of Transportation's use of multiple systems to meet its operational and financial reporting objectives results in unnecessary complexity and control weaknesses since these systems were never designed to share data.

## Federal Program Findings

<i>2017 Major Programs</i>
Supplemental Nutrition Assistance Program (SNAP) Cluster
Special Supplemental Nutrition Program for Women, Infants, and Children
Qualified Participating Entities (QPE) Risk Sharing
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
Equitable Sharing Program
Unemployment Insurance
Highway Planning and Construction Cluster
Grants to States for Construction of State Home Facilities
Clean Water State Revolving Fund Cluster
Student Financial Assistance Cluster
TANF Cluster
Child Support Enforcement
Low-Income Home Energy Assistance
CCDF Cluster
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke
Children's Health Insurance Program
Medicaid Cluster

The State has experienced significant compliance challenges for its largest human service programs with implementation of the RIBridges integrated eligibility system. These challenges significantly impacted the State's ability to comply with federal regulations relating to eligibility and, for certain programs, benefit payments which are determined by RIBridges (Medicaid, CHIP, TANF, SNAP, CCAP). We reported noncompliance with material compliance provisions which largely stemmed from the ineffective operation of the RIBridges computer system.

**Medicaid and Children's Health Insurance Programs** - Due to the limited operation and effectiveness of controls over eligibility for the Medicaid and CHIP programs during fiscal 2017, the State did not comply with the Medicaid and CHIP program eligibility requirements, collectively. The State specifically did not materially comply with federal regulations for annual redeterminations for recipient eligibility and the validation of key eligibility data elements through the use of electronic interfaces designed within RIBridges.

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Data discrepancies exist between the systems used to determine Medicaid and CHIP eligibility (RIBridges) and the claims/capitation payment system (MMIS). As of June 30, 2017, the MMIS reported 16,000 recipients more than RIBridges. This impacts controls to ensure payments are only made on behalf of eligible individuals and has resulted in duplicate capitation payments being made to managed care organizations.

The effectiveness of the Medicaid Eligibility Quality Control (MEQC) program is diminished by the continued RIBridges functional limitations. The MEQC Unit continues to experience challenges in obtaining the information needed to verify eligibility determinations made by RIBridges. A significant volume of systemic issues identified by MEQC processes are currently pending corrective action in RIBridges.

Delays in the enrollment of Medicaid eligible newborns within RIBridges resulted in significant and related delays in provider claims adjudication and payments to managed care organizations (MCOs). EOHHS advanced \$6.5 million to MCOs covering newborns at June 30, 2017 whose eligibility was still pending. The MCOs were due capitation of approximately \$12.4 million at June 30, 2017 for coverage provided to newborns since birth - \$6.5 million in advance payments were made for such amounts.

In many instances, particularly for Medicaid applicants requiring long-term care services and supports, the State is not complying with timely determination of Medicaid eligibility requirements. Processing Medicaid applications for long-term care services in RIBridges continues to be problematic resulting in significant delays in determining eligibility and necessitating advances to long-term care service providers.

EOHHS made advance payments totaling \$12.5 million to nursing home providers between September 2016 and January 2017 due to delays in processing eligibility for nursing home patients with pending Medicaid eligibility. The advances made in this period were federally reimbursed (at the applicable federal financial participation rate) but did not meet criteria for reimbursement. The advances to nursing facility providers remain outstanding.

EOHHS lacks strong oversight procedures regarding fiscal monitoring and contract settlement for its managed care organizations (MCOs). Capitation payments to MCOs represent nearly 63% of Medicaid benefit expenditures. 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.

EOHHS needs to reassess all activities considered surveillance utilization review services (SURS) performed within the Medicaid program to comply with federal regulations and amend the State Plan to accurately reflect the State's current practices.

**TANF** - Due to the limited operation and effectiveness of controls over eligibility for the TANF program during fiscal 2017, the State did not comply with the TANF eligibility requirements, collectively.

Implementation of the new RIBridges eligibility system affected the availability and reliability of data needed to prepare timely and accurate federal reports.

The RIBridges system did not prompt employment and career advisors to update/develop new work participation plans for clients upon the expiration of an existing plan.

The State did not comply with the Income Eligibility and Verification System requirements upon implementation of the new RIBridges integrated eligibility system in fiscal 2017.

**SNAP** - Implementation of the RIBridges eligibility system limited the Department of Human Services' (DHS) ability to submit timely and accurate federal reports required for the SNAP program.

The RIBridges eligibility system does not currently meet all the functional requirements of an automated data processing system as outlined in federal SNAP regulations. The system is also not producing reports to allow daily reconciliation of electronic benefits authorized and disbursed and to ensure accurate and timely completion of federal reports.

**Child Care Assistance Program** - The RIBridges eligibility system lacked effective income validation controls during fiscal 2017 which impacted program eligibility determinations and the amount of required parent cost-sharing amounts. RIBridges was not consistently calculating correct cost-sharing amounts for both parents and providers, which required supplemental payments to childcare providers.

Financial reports were not filed during fiscal year 2017 for the CCDF Cluster Programs.

**LIHEAP** - DHS must improve controls to ensure compliance with the period of performance requirement and to improve related federal reporting for such requirements. DHS can also improve its monitoring of subrecipient cash balances and documentation supporting the annual report on households assisted by LIHEAP.

**Community Development Block Grant** - the Office of Housing and Community Development should improve its monitoring of subrecipients and enhance procedures to comply with cash management and reporting requirements.

**Unemployment Insurance** - The Department of Labor and Training (DLT) did not make the necessary changes to its system to allow for the imposition of penalties on overpayments due to fraud, and to prohibit relief from charges to an employer's UC account when the overpayment was the result of the employer's failure to respond timely or adequately to a request for information.

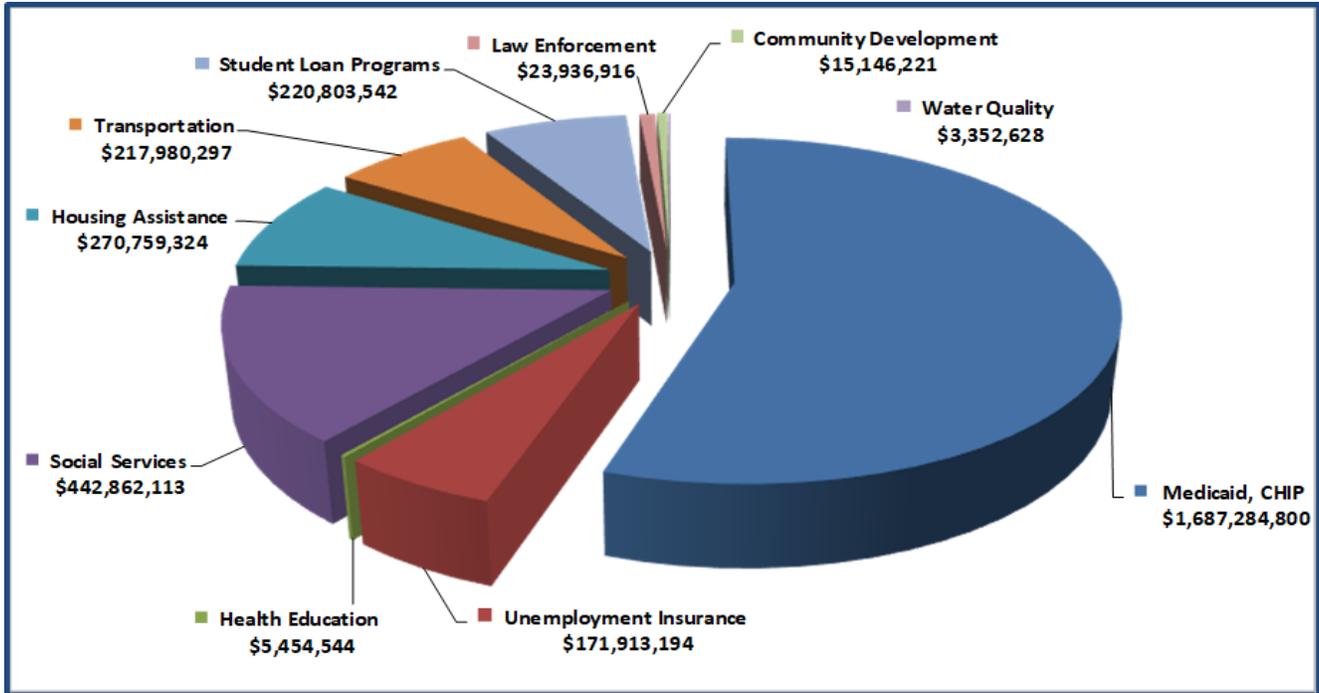
**Highway Planning and Construction** - RIDOT should further enhance its quality assurance program to ensure that required materials tests are performed and documented consistent with federal regulation and RIDOT policy.

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A Corrective Action Plan, prepared by the State's management, is included in the report, which describes planned corrective actions and a timetable for implementation.

A Summary Schedule of Prior Audit Findings is also included, which reports the status of findings from prior audits.

### Fiscal 2017 Federal Award Expenditures Tested as Major Programs – Summarized by Program Type



The Single Audit Report includes 79 findings as summarized in the following table:

Summary of findings included in the 2017 Single Audit Report			
	Primary government	Component units	Total
<b>Findings related to the financial statements</b>			
Material weaknesses in internal control	9	1	10
Significant deficiencies in internal control	22	3	25
Other compliance matters		1	1
<b>Findings related to the administration of federal programs</b>			
Material weaknesses in internal control	10		10
Significant deficiencies in internal control	18	4	22
Material noncompliance / material weakness in internal control	10		10
Noncompliance – questioned costs only	1		1
<b>Total</b>	<b>70</b>	<b>9</b>	<b>79</b>

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