



# Audit Summary

Dennis E. Hoyle, CPA, Auditor General

dennis.hoyle@rioag.gov

APRIL 2019

## State of Rhode Island Single Audit Report Fiscal Year Ended June 30, 2018

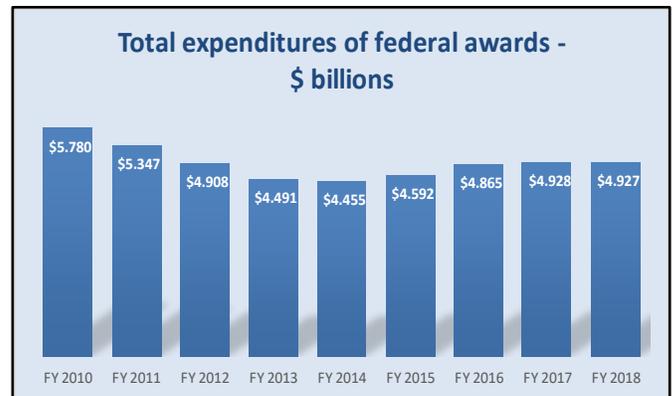
We completed our annual Single Audit of the State of Rhode Island for the fiscal year ended June 30, 2018. The **Single Audit Report** includes findings and recommendations related to the State's key operations and the administration of federal programs.

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 2018 Comprehensive Annual Financial Report.

The Single Audit is required by federal law and regulation as a condition of continued federal assistance. The report includes a detailed schedule of federal award expenditures and our reports outlining internal control deficiencies and noncompliance relating to financial reporting and the administration of federal programs.

Federal funding represents approximately 40% of the State's General Fund expenditures and is the State's second largest revenue source. The accompanying chart depicts the changes in total expenditures of federal awards for fiscal years 2010 to 2018. The general decrease in aggregate federal funding in years 2010 through 2014 is largely due to the phase-out of federal stimulus funding which began in fiscal year 2009 but resulted in significant expenditures in 2010 and 2011. More recently, reductions in federally insured student loan balances and unemployment insurance benefits are offset by increases in Medicaid funding.

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 450 individual programs. Many programs are jointly financed with federal and state funding. Medicaid is the single largest program with fiscal 2018 expenditures totaling approximately \$2.8 billion - the federal government shared \$1.7 billion of that cost. Consistent with federal guidelines, we tested 58% of the total expenditures of federal awards as major programs following criteria established in the federal Uniform Guidance.



### Financial Statement Findings

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, 2018. 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.

Summary of findings included in the 2018 Single Audit Report			
	Primary government	Component units	Total
<b>Findings related to the financial statements</b>			
Material weaknesses in internal control	6	1	7
Significant deficiencies in internal control	27	2	29
Material noncompliance		1	1
<b>Findings related to the administration of federal programs</b>			
Material noncompliance / material weakness in internal control	9		9
Material weaknesses in internal control	9	2	11
Significant deficiencies in internal control	15	3	18
Noncompliance/questioned costs only/other matters	2	1	3
<b>Total</b>	<b>68</b>	<b>10</b>	<b>78</b>

## Audit Summary - State of Rhode Island - Fiscal 2018 Single Audit Report

The State's management has implemented corrective action on some findings previously reported. Incremental progress is also noted in our findings when recommendations have not been fully implemented but corrective actions are underway.

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 and a grants management system. The State had expended nearly \$3 million on those projects.

Management should propose an additional dedicated funding source for the Information Technology Investment Fund to support the anticipated enhancements to critical financial and administrative computer systems identified through implementation of the strategic plan.

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. This complexity results from new federal regulations, various State initiatives, and additional challenges resulting from its implementation of the RIBridges eligibility system. Medicaid is the State's single largest program activity - representing nearly 40% of the annual budgeted outlays of the State's General Fund. 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.

Responsibility for monitoring the investment activity and other compliance aspects 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 \$200 million in system payouts and manual disbursements in fiscal 2018, 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).

Monitoring of escrow liability account balances needs to be improved

and the establishment of these accounts should be more limited to ensure they are only used when that is the proper accounting for such funds.

Controls can be enhanced within the accounting system to better track the distinct components of fund balance required for presentation in the fund level financial statements.

Policies need to be developed and implemented to guide decision-making regarding what types of costs should be paid from the newly established Information Technology internal service fund.

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 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.

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.

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 STAARS system.

The Division of Taxation engaged its system development vendor to perform a series of data-matches in order to increase billings for unpaid taxes and related collections (revenue). The cost for these specific tasks were reflected in the accounting system as reductions of revenue rather than expenditures.

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.

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 (RIDOT) can enhance controls over the presentation of fund balance components within the IST Fund and enhance the accuracy of transportation infrastructure assets identified for inclusion in the State's financial statements.

We found that controls to ensure accurate and consistent reporting of investment expenses within the pension trusts require enhancement at both the custodian and Employees' Retirement System management level.

The resources necessary to effectively manage and administer the OPEB System to ensure all System functions are met and adequately

# Audit Summary - State of Rhode Island - Fiscal 2018 Single Audit Report

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.

## Federal Program Findings

The State experienced continued compliance challenges for federally-funded human service programs due to incomplete or ineffective RIBridges system functionalities. RIBridges is the integrated eligibility/benefit system used to administer multiple federal assistance programs. As a result, we reported material noncompliance for several compliance provisions related to the State's ability to comply with federal requirements for the Medicaid, CHIP, TANF, SNAP, and CCDF program clusters.

2018 Major Programs
Supplemental Nutrition Assistance Program (SNAP) Cluster
Child Nutrition Cluster
National Guard Military Operations and Maintenance Projects
Home Investment Partnerships Program
Equitable Sharing Program
Unemployment Insurance
Highway Planning and Construction Cluster
Federal Transit Cluster
Special Education Cluster
Substance Abuse and Mental Health Services – Projects of Regional and National Significance
Temporary Assistance to Needy Families (TANF) Cluster
Low-Income Home Energy Assistance Program (LIHEAP)
Child Care and Development Fund (CCDF) Cluster
Children's Health Insurance Program (CHIP)
Medicaid Cluster
Block Grants for Prevention and Treatment of Substance Abuse
Research and Development Cluster

The State needs to improve its system security oversight over systems used to administer its federally funded human services programs by implementing a well-defined and coordinated approach for the multiple agencies vested with this responsibility.

**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 2018, the State did not comply with the Medicaid and CHIP program eligibility requirements, collectively.

The State specifically did not materially comply with eligibility requirements due to collective noncompliance regarding adequately documenting and determining recipient eligibility, redetermining eligibility timely, and validating key eligibility data elements using electronic interfaces designed within RIBridges.

Data discrepancies between the systems used to determine Medicaid and CHIP eligibility (RIBridges) and the claims/capitation payment system (MMIS) continued to negatively impact controls to ensure that payments were made only on behalf of eligible individuals during fiscal 2018.

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.

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 lacks strong oversight procedures regarding fiscal monitoring and contract settlement for its managed care organizations (MCOs). Capitation payments to MCOs represent nearly 60% 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 2018, the State did not comply with the TANF eligibility requirements, collectively.

Implementation of the 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.

**SNAP** – 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 and Development Fund Cluster** – The RIBridges eligibility system lacked effective income validation controls during fiscal 2018

## Audit Summary - State of Rhode Island - Fiscal 2018 Single Audit Report

which impacted program eligibility determinations and the amount of required parent cost-sharing amounts.

**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.

**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.

**Child Nutrition Cluster** – The RI Department of Education (RIDE) needs to increase efforts to comply with the requirement to perform administrative reviews of all School Food Authorities every 3 years.

**Substance Abuse and Mental Health Service Programs** – The Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH) can improve its controls over federal reporting to ensure that substance abuse program expenditures are reported accurately and consistently with federal requirements.

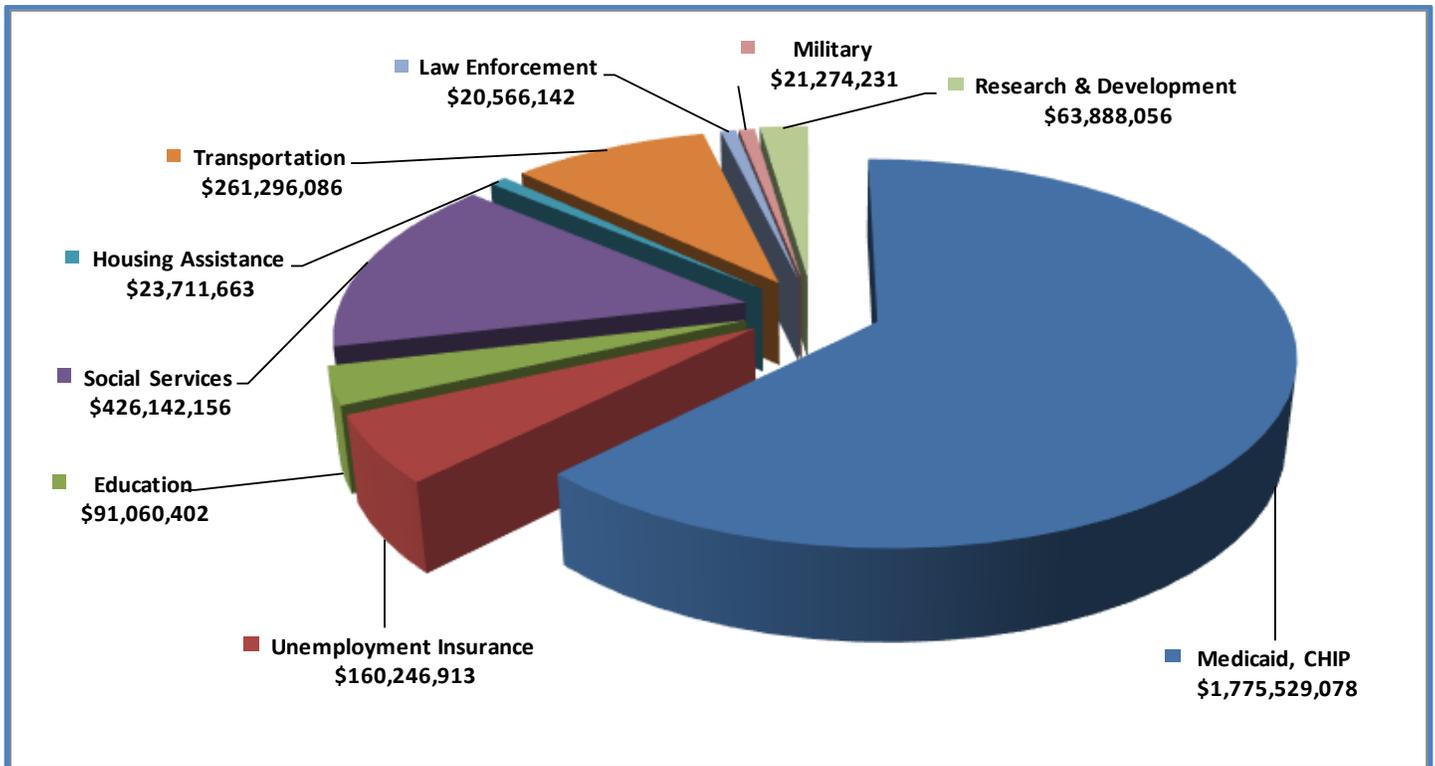
BHDDH can enhance its monitoring of subrecipients as required by federal program requirements and improve its controls over the process to demonstrate and document that it complied with maintenance of effort requirements for the Substance Abuse Block Grant. BHDDH can improve its controls over cash drawdown procedures to ensure compliance with federal cash management requirements.

**Equitable Sharing Program** – The State can enhance uniform procedures to ensure compliance with the reporting requirements of the Equitable Sharing Program when preparing the annual Equity Sharing Agreement and Certification (ESAC) Report.

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 2018 Federal Award Expenditures Tested as Major Programs – Summarized by Program Type



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