

State of Rhode Island
Findings and Management Comments
Resulting from the Audit of the
State of Rhode Island's
Fiscal 2025 Financial Statements



David A. Bergantino, CPA, CFE
Auditor General

State of Rhode Island
General Assembly
Office of the Auditor General



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June 24, 2026

Finance Committee of the House of Representatives
Joint Committee on Legislative Services, General Assembly
State of Rhode Island

We have audited the financial statements of the State of Rhode Island (State) for the year ended June 30, 2025 and have issued our report thereon dated June 24, 2026 in the State's Annual Comprehensive Financial Report for fiscal 2025.

As required by *Government Auditing Standards*, we have also prepared a report, dated June 24, 2026, and included herein, on our consideration of the State's internal control over financial reporting, its compliance with certain provisions of laws, regulations and contracts, and other matters required to be reported by those standards. That report includes identification of control deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting as well as instances of material noncompliance. Our findings related to the financial statements are categorized below:

- 28 findings considered significant deficiencies or material weaknesses in internal control over financial reporting; including findings reported by the auditors of component units (legally separate entities included within the State's financial statements).
- 1 finding concerning compliance or other matters required to be reported by *Government Auditing Standards*.

This communication also includes 14 management comments resulting from our audit of the financial statements which are less significant issues that still warrant the attention of management.

The State's *Single Audit Report* for fiscal 2025 is in progress and is scheduled to be completed and submitted to the Federal Audit Clearinghouse later this summer. The *Single Audit Report* will include our reporting on compliance for major federal programs, inclusive of findings related to controls over compliance with federal program requirements and the administration of federal programs.

The State's management has provided their planned corrective actions relative to these findings and management comments, which have been included herein.

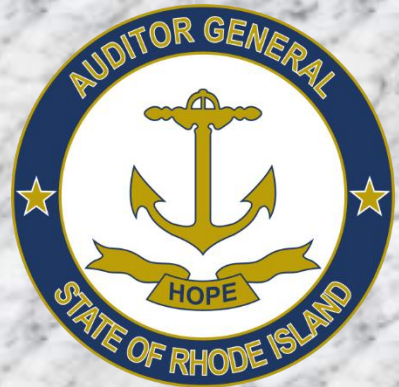
Sincerely,

David A. Bergantino, CPA, CFE
Auditor General

**FINDINGS AND MANAGEMENT
COMMENTS**

**AUDIT OF THE STATE
OF RHODE ISLAND'S
FISCAL 2025 FINANCIAL
STATEMENTS**

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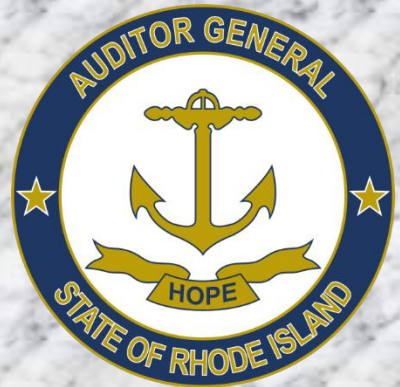
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EXECUTIVE SUMMARY



The State's financial reporting experienced significant challenges as its new enterprise resource planning (ERP) system became operational with the fiscal 2025 financial closing. Material weaknesses in internal control continued to result in material misstatements and misclassifications within the financial statements that were undetected by management and required adjustment. In addition, certain misstatements were attributable to the ERP transition with errors in the form of inconsistent account mapping from the prior system or user inexperience with the new system, issues not uncommon to complex system implementations.

Management's responsibility for implementing and maintaining a system of internal control is foundational to ensure complete and accurate financial reporting, compliance with federal regulations, and safeguarding assets of the State. This responsibility is defined in State statutes and federal requirements. RI General Law section 35-14-3, *Agency Responsibilities*, under the State's Financial Integrity and Accountability statutes, mandates that "State agency heads are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes: (1) documenting the system; (2) communicating the system requirements to employees; and (3) assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions."

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's implementation of a new ERP system creates a need and opportunity to address this long-standing deficiency. A real commitment to improving the accuracy and timeliness of financial reporting is needed to reverse the current trend and achieve notable improvements in the next few years. A modernized ERP system should allow the State to automate certain finance-related tasks to a greater extent than its previous accounting system. It will, however, take continued resources and agency coordination to achieve those efficiencies. In addition, processes must be implemented to assist agencies in documenting their specific internal controls over critical operations supporting financial activity and federal compliance.

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, 2025. 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 and material noncompliance based on our audit. Twenty-nine (29) findings included herein represent issues required to be reported under those standards. Findings repeated from prior years are identified.

The State must also continue to improve its consideration of controls over functions performed by external parties through enhanced use and documentation of Service Organization Control (SOC) reports. These improvements are necessary and consistent with management's responsibility for the overall adequacy of the design and operation of internal control.

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 – approximating \$4.3 billion in expenditures or approximately 41% 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.

Controls are lacking to ensure the completeness and accuracy of reported accruals and year-end adjustments in conjunction with the State's fiscal closing. Processes require improvement at the agency level to allow chief financial officers, who are most knowledgeable about the agency's programs and budget, to ensure a complete and accurate fiscal close.

The State can 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.

Controls over the preparation of the Schedule of Expenditures of Federal Awards (SEFA) can be enhanced to ensure all program activity, including amounts passed through to subrecipients, is accurately reported in accordance with federal Uniform Guidance requirements.

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. Ensuring that the new ERP system, individually or in combination with other applications, increases the automation and effectiveness of Treasury functions will be critical.

Controls over the identification and reporting of leases and subscription-based information technology arrangements (SBITAs) applicable to GASB Statements No. 87 and No. 96 were insufficient to ensure all applicable agreements were properly recorded.

Control deficiencies continue to result in significant misstatements in the Intermodal Surface Transportation Fund financial statements. Internal controls must be improved to ensure consistent and accurate financial reporting.

Controls over the identification of transportation infrastructure assets need further improvement to ensure accuracy and completeness. Controls should be improved to record the disposal of infrastructure assets when retired, replaced, or permanently impaired.

The State continues to assess its current cybersecurity readiness, including identifying risk mitigation priorities. Additional resources are needed to mitigate the current risks that have been validated by both internal and contracted cybersecurity assessments. The State's ability to assess, document, and mitigate risks will require continued implementation and maturation of many of the State's current information technology (IT) security initiatives. Those initiatives will need additional resources to achieve and maintain their intended objectives.

The State's security information event monitoring (SIEM) function lacks the maturity, staffing, and technological resources required to support an enterprise of its size. Current SIEM activity exceeds available capacity, hindering timely analysis and remediation.

The State's current practices for periodic logical access and privilege reviews at both the application and network levels do not fully comply with the State's information security policies and procedures.

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

Our report includes control deficiencies and material noncompliance reported by the independent auditors of certain blended and 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 14 management comments that highlight opportunities for enhancement of financial-related operational, policy or accounting control matters.

The State's transition to a new ERP system for the fiscal 2025 closing resulted in delays in bank reconciliation timeliness and completeness. Those managing the ERP transition and the Treasury will need to continue coordination to ensure that challenges to effective and efficient bank reconciliation processes are addressed as the system becomes fully operational in fiscal 2026.

The legacy systems utilized by the RI Department of Labor and Training (DLT) to process unemployment benefits, temporary disability insurance, and employer taxes have reached end-of-life and pose significant business continuity risks to DLT operations.

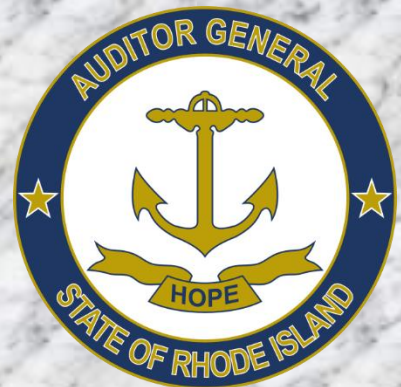
The State lacks consistent governance, timely updates, and uniform remediation across its business continuity, incident response, and vulnerability management processes.

The State needs to incorporate a centralized Hardware Lifecycle Management program to improve planning, acquisition, implementation, maintenance, upgrade, and disposal of IT hardware.

The Enterprise Operations Center, over time, has accumulated environmental control failures that require mitigation to maintain appropriate levels of operational standards.

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

**INDEPENDENT AUDITOR'S
REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND
OTHER MATTERS**





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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly,
State of Rhode Island

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Rhode Island (the State), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated June 24, 2026.

Our report includes a reference to other auditors who audited the financial statements of:

- the Tobacco Settlement Financing Corporation, a blended component unit which represents less than 1% of the assets and deferred outflows and the revenues of the governmental activities and less than 1% of the assets and 1% of the revenues of the aggregate remaining fund information;
- the Convention Center Authority, a major fund, which represents 22% of the assets and deferred outflows and 2% of the revenues of the business-type activities;
- the Ocean State Investment Pool, an investment trust fund, and the HealthSource RI Trust, Rhode Island Higher Education Savings, and ABLE private-purpose trust funds, which collectively represent 20% of the assets and 23% of the revenues, including additions, of the aggregate remaining fund information; and
- all the component units comprising the aggregate discretely presented component units.

This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we and the other auditors did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as Findings 2025-001, 2025-002, 2025-005, 2025-006, 2025-008, 2025-009, 2025-017, and 2025-018 to be material weaknesses. Other auditors of the discretely presented component units considered the deficiencies in the accompanying schedule of findings and responses as Findings 2025-028 and 2025-029 to be material weaknesses.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as Findings 2025-003, 2025-004, 2025-007, 2025-010, 2025-011, 2025-012, 2025-013, 2025-014, 2025-015, 2025-016, 2025-019, 2025-020, 2025-021, 2025-022, 2025-023, 2025-024, and 2025-025 to be significant deficiencies. Other auditors of the discretely presented component units considered the deficiency in the accompanying schedule of findings and responses as Finding 2025-027 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of the tests performed by other auditors disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as Finding 2025-026.

State's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the State's responses to the findings identified in our audit and described in the accompanying schedule of findings and responses. The State's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



David A. Bergantino, CPA, CFE
Auditor General
June 24, 2026

**SCHEDULE OF
FINDINGS AND RESPONSES**

**INTERNAL CONTROL OVER
FINANCIAL REPORTING**

STATEWIDE

AUDIT STANDARD:

Management is responsible for a.) the preparation of the financial statements in accordance with generally accepted accounting principles and b.) the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.



Finding 2025-001**(material weakness – repeat finding – 2024-001)****INTERNAL CONTROLS NEED STRENGTHENING TO PREVENT MATERIAL MISSTATEMENTS AND INCONSISTENT PRESENTATION IN THE STATE’S FINANCIAL REPORTING**

Audit procedures have led to the detection and correction of an excessive number of significant misstatements and misclassifications of financial transactions indicative of the need to improve internal controls over financial reporting, including the adoption of quality control and monitoring procedures. The State’s transition to a new enterprise resource planning (ERP) system for the fiscal close further challenged financial reporting for 2025.

Background: The State’s financial reporting is performed centrally by the Office of Accounts and Control (OAC) within the Department of Administration. Those State-wide processes rely on State agencies (agencies) to record financial activity in accordance with generally accepted accounting principles (GAAP) with some limited review procedures conducted by OAC personnel. OAC is responsible for the generation of draft financial statements for audit, which includes ensuring consistent presentation of financial activity from one period to another to allow for comparability of the State’s financial activity over time.

The State, with the assistance of contractors, began the transition of its accounting and financial reporting to a new ERP system effective July 1, 2025. The financial closing for fiscal year 2025 was performed in the new ERP system, which maps and uploads trial balance reports into an application that supports the preparation and completion of draft financial statements and the Annual Comprehensive Financial Report (ACFR). The design of the new ERP system reinforced responsibility for accounting with State agency chief financial officers (CFOs) as the final agency reviewers and approvers of financial transactions.

Audits in recent years have led to the identification of a significant number of material misstatements, omissions, and misclassifications in the State’s financial reporting that required correction. To address prior year recommendations relating to financial reporting deficiencies, the State implemented procedures in fiscal 2025 to provide for better communication between the OAC and the Office of Management and Budget (OMB) to better coordinate the financial reporting of significant and unusual transactions. The implementation of the new ERP system brought additional challenges to the fiscal 2025 closing, including user inexperience with the new system and inconsistent financial statement mapping of new ERP accounts resulting in numerous misstatements. These challenges made it difficult to determine how effective the newly implemented procedures were in fiscal 2025 in improving overall financial reporting quality.

Criteria: Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Financial reporting consistency is critical to the comparability of financial results over time.

Condition: More than 75 audit adjustments, deemed significant (corrected individual misstatements and/or improper presentation of transactions by more than \$1 million), were proposed and accepted during the fiscal 2025 audit. With the new ERP system reinforcing the review and approval of transactions by agency CFOs as a key control, internal controls over financial reporting at the agency level must be strengthened to reduce the number of significant misstatements being identified in draft financial statements. While the OAC has final approval authority for journal entries and adjustments greater than \$2,500, that review is limited to evaluating these transactions from a financial reporting context and not from an accuracy and completeness standpoint, which remain as agency responsibilities. While there was some commonality in many of the misstatements when compared to those identified in prior years, the challenges of new ERP system implementation clearly contributed to the volume of misstatements identified. Misstatements did vary by agency, with some agencies faring better than others with the accuracy of their fiscal close. A significant number of misstatements and misclassifications of financial transactions could be categorized into one or more of the following general categories:

- 1) *Omissions of year-end accruals reported* – The completeness of financial reporting is dependent on agencies and departments completely recording year-end accruals. Current accounting practices require that agency CFOs ensure that all accruals are recorded during the fiscal close. Since a significant amount of financial activity is

administered by separate and distinct systems that do not interface with the State's accounting system, significant reliance is currently placed on institutional knowledge to ensure the completeness of reported year-end accruals. As discussed in Finding 2025-002, documented internal control policies at the agency level are often lacking, posing significant risk that certain accruals will be omitted at year-end, especially when agencies experience significant turnover of knowledgeable finance personnel.

- 2) *Lack of search for unrecorded liabilities by agencies represents a lack of monitoring controls over financial reporting* – Several misstatements noted in the financial statements could have been identified if State agencies and/or the OAC conducted procedures to identify unrecorded liabilities at year-end. Such procedures would be most effective if performed in detail by agencies prior to their conclusion of fiscal close procedures, and subsequently repeated (for significant transactions omitted) by the OAC prior to closing the financial accounting period and preparing draft financial statements. Such monitoring procedures are needed to mitigate the significant risk that accruals are being misstated or omitted during the fiscal close.
- 3) *Inaccurate financial statement presentation caused by account mapping errors in the transition of the new ERP system* – The new ERP system substantially modified the account structure and coding within the State's chart of accounts and required remapping of the new accounting system to the application utilized to generate draft financial statements. A combination of some inconsistent mapping of accounts during the transition to the new system, with misclassifications not being detected during the review of the fiscal 2025 draft financials, resulted in several presentation misstatements requiring correction.
- 4) *State processes where the recording of cash movements lagged the actual deposit or transfer of cash at year-end* - Certain transactions are not being categorized properly under GAAP due to timing differences where the recording of the underlying transaction lags the actual cash movements to or from State bank accounts, causing several misstatements at year-end.
- 5) *Misstatements caused by errors in fiscal 2025 data conversion between the previous accounting system and new ERP system* - The implementation of the new ERP system required batch conversion entries to record the fiscal 2025 financial activity processed in the previous accounting system. This process, while largely accurate, was subject to some errors or incorrect conversions that resulted in certain transactions requiring correction in the financial statements.

Cause: While certain misstatements could be attributed to conversion challenges of the new ERP system, a lack of controls to detect and correct financial statement misstatements continues to hinder the accuracy and completeness of financial reporting. These control deficiencies include the following:

- a) *Lack of financial reporting controls at the agency level* – Internal controls are currently lacking at the agency level to ensure the accuracy and completeness of accrual transactions recorded at the fiscal close. Agencies lack documentation of fiscal closing procedures to aid financial staff and managers in ensuring the accuracy and completeness of financial activity reported. Finance staff turnover at all levels is increasing risk to financial reporting due to a lack of well-documented fiscal closing procedures. Further, agencies lack monitoring procedures to detect omitted or misstated accruals as part of their fiscal closing procedures.
- b) *ERP system implementation-related deficiencies* - Ensuring that the ERP system is properly mapped to the application utilized to prepare financial statements is critical. While some element of this challenge should be expected during a significant system implementation, controls will need to be improved to identify incomplete or inconsistent mapping in the future as accounts are added or modified.
- c) *Controls over journal entry transactions* – The State relies on designed transaction approval hierarchies to ensure that significant transactions receive reviews by both management at the departmental level and financial reporting staff at the OAC prior to posting. This important control was not found to be consistently effective in ensuring that journal entries recorded were accurate. This resulted in numerous inaccurate or incomplete journal entries going undetected and uncorrected by management that materially impacted financial reporting.
- d) *Certain accounting for cash transactions lags the actual deposit or transfer of cash from State bank accounts* – The State needs to evaluate instances where the recording of cash transactions currently lags the actual deposit or transfer of cash, resulting in improper financial statement classification at year-end.

Effect: Undetected material misstatements, misclassifications, and omissions in the financial statements.

RECOMMENDATIONS

- 2025-001a Require documentation and monitoring of fiscal closing procedures to improve the accuracy and completeness of agency fiscal closings.

- 2025-001b Adopt procedures to ensure the accuracy of ERP system account mapping for financial reporting.

- 2025-001c Reinforce responsibility of accounting and fiscal closings by agency CFOs to ensure the effectiveness of that control over financial reporting.

- 2025-001d Evaluate instances where the recording of cash transactions currently lags the actual deposit or transfer of cash, resulting in improper financial statement classification at year-end.

Management’s Views and Corrective Actions:

2025-001a: All State agencies will be instructed to document their procedures, inclusive of planned monitoring procedures to ensure the completeness and accuracy of financial transactions recorded at the fiscal close.

2025-001b: The mapping issues identified in the finding are related to the financial statement creation software (Workiva’s Wdesk), not the ERP system. This was part of the transition and further automation of the ACFR. Mapping was corrected during the audit and is improved for fiscal years going forward.

2025-001c: Reinforcement of accounting and fiscal closing responsibility by the agency CFO will be communicated to leadership of all State agencies as part of the annual fiscal closing schedule published by the Office of Accounts and Control.

2025-001d: The Office of Accounts and Control (A&C) will work with the Office of the General Treasurer and respective agencies to identify and address instances where cash transactions are not recorded timely resulting in improper financial statement classification at year-end.

*Anticipated Completion Dates: 2025- 001a, 2025-001c, 2025-001d- To be determined
2025-001b- completed*

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Finding 2025-002 **(material weakness – repeat finding – 2024-002)**

COMPREHENSIVE DOCUMENTATION OF THE STATE’S INTERNAL CONTROL STRUCTURE

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 the design and operation of internal control. Internal controls safeguard public resources and support accurate financial reporting.

Background: The State’s management has responsibility for the design and operation of internal control. The Committee of Sponsoring Organizations (COSO) has designed a framework for internal control that consists of three categories of objectives – *operations, reporting, and compliance* – and five components – *control environment, risk assessment, control activities, information and communication, and monitoring*. The Government Accountability Office’s “Green Book” – *Standards for Internal Control in the Federal Government* tailors this conceptual framework

to the public environment. The Green Book is required for federal agencies and is useful to other governments when applying the principles of an internal control framework.

Criteria: RI General Law section 35-14-3, *Agency responsibilities*, under the State’s Financial Integrity and Accountability statutes, mandates that “State agency heads are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes: (1) Documenting the system; (2) Communicating the system requirements to employees; and (3) Assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.”

An internal control framework, such as COSO and/or the Green Book, provides an overall structure for management to design, document, and monitor its internal control policies and procedures. Both within and outside government, management has responsibility for the adequacy of the design and operation of an entity’s control structure. A complete consideration of internal control, in addition to documenting control policies and procedures, must also include how the policies are communicated, documentation of risks associated with financial reporting and operations, and monitoring of those documented controls to ensure their effectiveness.

Federal regulations, 2 CFR 200.303(a) *Internal controls*, require recipients (i.e., the State) to “establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient or subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).”

Condition: The majority of agency and statewide policies and procedures are not documented and administered in the manner that is required by statute, federal regulations, or professional standards (COSO, Green Book). While certain control policies and processes have been documented, there is a lack of formalized documentation and comprehensive internal control structure throughout State government that complies with an accepted framework such as COSO and/or the Green Book. To meet the intended standards, internal controls must be documented, periodically evaluated, and revised based on updated risk assessments, effectively communicated to employees (through training if necessary), and monitored for effectiveness by the agency. Formalized documentation of internal controls relating to statewide functions (i.e., accounting, procurement, payroll) is a needed first step that will allow agencies to expand on and supplement with their agency-specific policies and procedures relating to critical program functions. Since each State agency has unique programs and procedures that supplement statewide functions, internal control consideration and documentation must also be performed at the agency level, as required by statute.

The State implemented the finance module of a new ERP system in July 2025, conducting the fiscal year-end closing and financial reporting utilizing the new system. The new ERP system required substantial modification of certain processes and related controls in conjunction with its implementation. As the initial implementation phase progresses, it is critical that internal controls are evaluated and documented consistently with an acceptable framework. Such an exercise will be vital to ensure that the new ERP system and its related configuration and workflow processes provide adequate internal control over the core functions of the new system (e.g., human resources, procurement, accounting and financial reporting, disbursements, etc.). It will also be critical to ensure that agencies have the necessary reporting from the system to meet their operational needs. A coordinated effort is needed to document a comprehensive system of internal control that meets an acceptable framework and to reassess the design of its current control structure (both statewide and at the individual agency level) with emphasis on risk assessment and monitoring - both essential components of internal control.

Cause: Management focus, training and implementation resources have been insufficient to ensure that departments and agencies are adequately documenting their internal control structures based on an accepted framework such as COSO and/or the Green Book. Most agencies will likely need some coordinated assistance to document and implement a system of internal control that meets the requirements of RI General Law section 35-14-3, *Agency responsibilities*.

Effect: Errors, omissions, noncompliance, or fraud could go undetected by management due to inadequate design and/or monitoring of internal controls. Management is not complying with statutory requirements for documenting internal controls.

RECOMMENDATIONS

- 2025-002a Implement an internal control framework, such as COSO or the Green Book, and commit additional resources, including training and implementation materials, to ensure that departments and agencies are adequately documenting their internal controls accordingly.
- 2025-002b Ensure that internal controls over financial reporting are completed and include documentation of risk assessments, control activities that mitigate identified risks, and monitoring controls to ensure compliance with policies and procedures adopted in conjunction with the new ERP system.

Management's Views and Corrective Actions:

2025-002a: Management has explored the engagement of a consultant to assist in the enterprise-wide documentation of internal controls since agency resources do not possess the knowledge or time to perform this task at a level that would address this audit finding. The estimated cost of this endeavor is between \$3 and \$5 million. Until the funding for this is provided, controls will be documented as noted in 2025-002 (b) below.

2025-002b: The ERP implementation brought an opportunity to embed internal controls within the software application. Through the ERP implementation, we created documentation for decisions regarding new business processes and improved internal controls over financial activities, referred to as decision documents. These decision documents include options presented by system implementor, reason the option was selected, a workflow of business process. During implementation, risks were documented, but for a fully comprehensive internal control documentation refer to response in 002a. Agency management will need to ensure their finance teams remain well versed in the internal control structure embedded in the system.

Anticipated Completion Dates: 2025-002a: to be determined, dependent on funding
2025-002b: completed

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Finding 2025-003

(significant deficiency – repeat finding – 2024-003)

EVALUATION OF CONTROLS OVER FUNCTIONS PERFORMED BY EXTERNAL PARTIES

The State must continue to improve its consideration of controls over functions performed by external parties through enhanced use and documentation of Service Organization Control (SOC) reports. These improvements require State agencies (the “user entities”) to document and review complementary user entity controls designated in those SOC reports which the service organization assumes are in place and operating effectively for proper and secure use of the contracted entity’s services. This consideration is necessary and consistent with management’s responsibility for the overall adequacy of the design and operation of internal controls.

Background: SOC reports are provided by service organizations (i.e., vendors, contractors) to assure customers/clients that controls are sufficiently designed and in operation over the contracted services they provide (e.g., data processing, claims payment, fiduciary activities). Management of the user entity should use these reports as part of their overall consideration and documentation of the adequacy of the design and operation of internal control. Management should also ensure that their complementary user entity controls (user entity controls) are documented and reviewed to ensure that they are operating effectively. Ineffective user entity controls limit the usefulness of SOC reports when documenting an entity’s financial and operational controls as those reports assume that user entity controls are operating effectively.

To provide an example of the significance of financial operations involving service organizations, benefit disbursements by the State's Medicaid fiscal agent and human services eligibility and benefits system represent approximately 39% of the State's General Fund expenditures. Service organizations are currently involved, to some degree, in most finance-related functions of State government. The use of service organizations has increased over time, and will likely continue to, as more services are being administered through cloud-based applications.

The State has made progress by training employees and implementing a uniform SOC report assessment tool to document the consideration of controls at its service organizations. Centralized monitoring by the Office of Accounts and Control has improved agency compliance with obtaining and providing a standard evaluation of the SOC reports by agency personnel. SOC 1 engagements continue to be the responsibility of the agency overseeing the contracted service. The Division of Enterprise Technology Strategy and Services (ETSS) has begun incorporating the review of SOC 2 engagements specific to controls over information security as part of their centralized information technology vendor management and risk assessment processes as a step towards ensuring regular reviews and consideration of vendor information security controls.

Criteria: Management has responsibility for the adequacy of the design and operation of an entity's control structure, including functions performed by external parties. This responsibility also includes documenting and reviewing user entity controls, which the service organization assumes are in place and operating effectively for the proper and secure use of the contracted entity's services.

Condition: Management's identification of key service organization controls (reported in SOC reports) and their importance to mitigating risks associated with critical programmatic and financial reporting functions remain deficient as follows:

- Agencies are not always identifying when SOC reports should be requested from contractors, especially for new services or when contractors change.
- User agency documentation of key SOC controls within that agency's internal control documentation is currently deficient. As indicated in Finding 2025-002, most State agencies lack formalized documentation of internal control, thus management consideration and documentation of how SOC reports are utilized to mitigate operational risks is equally deficient.
- Documentation and testing of user entity controls at the agency level are lacking. These controls are assumed to be operational by the auditor of the service organization when providing an opinion on the effectiveness of their internal controls. Each agency (user entity) must ensure that relevant user entity controls identified by service organizations are also in place and operating effectively. Such control considerations should be included in the documentation and evaluation of internal controls discussed in Finding 2025-002.

When SOC reports identify exceptions, evaluation of such matters must be timely and thorough. Any highlighted deviations in control testing that may result in a qualified opinion regarding the design and effectiveness of certain control procedures at the service organization, as well as user entity control considerations, should be documented, reviewed, and thoroughly vetted. For fiscal 2025, documentation obtained from State agencies utilizing service organizations was incomplete or insufficient regarding the evaluations of the exceptions and the impact on the State's overall operational controls. While SOC reports evaluate whether service organizations are following their described internal controls, agencies are ultimately responsible for evaluating the adequacy of those controls based on the operational risks inherent in the services being provided.

Cause: The lack of comprehensive documentation and consideration of (1) service organization controls and (2) user entity controls by agencies relying on service organizations to perform critical functions for State government represent a weakness in internal control over financial reporting. In addition, insufficient documentation and review of user entity controls limit the related assurance that can be placed on control objectives reported within SOC reports.

Effect: Deficiencies in the design and/or operation of controls at service organizations could materially impact the State's overall controls over financial reporting and compliance. Ineffective or inoperative user entity controls at the respective State agency level could impact the operating effectiveness of the service organization's internal controls.

RECOMMENDATIONS

- 2025-003a For user entity (State agency) controls identified within SOC reports, document and evaluate the agency controls to ensure that they are in place and operating effectively.
- 2025-003b Incorporate agency reliance on control objectives documented and reviewed in SOC reports within the agency’s formal documentation of internal controls over program operations.
- 2025-003c Improve documentation of SOC report results, including consideration and mitigation of service organization control deficiencies reported.

Management’s Views and Corrective Actions:

The Department of Administration has provided training to agency staff, and redesigned the review form based on previous year’s audit finding. Accounts and Control will monitor agency review of the SOC Type I reports. The SOC Type II reports will be centralized within ETSS who will review on behalf of the agency.

2025-003a: - The Office of Accounts & Control will continue to remind State agencies of the importance to thoroughly review user entity controls identified within SOC reports and document and evaluate controls to ensure they are in place and operating effectively.

2025-003b: The Office of Accounts & Control will continue to monitor agency review of SOC Type I reports. The SOC Type II reports will be centralized within ETSS who will review on behalf of the agency.

2025-003c: A&C provided training to agency staff and redesigned the review form based on the previous year’s audit finding. A&C continues to monitor agency reviews of the SOC Type I reports. The SOC Type II reports are centralized within ETSS who reviews on behalf of the agency.

Anticipated Completion Date: Continuous

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Finding 2025-004 (significant deficiency – new finding)

CONSIDERATION OF INTERNAL CONTROL IN TRANSITIONING RECEIVABLES TO THE NEW ERP SYSTEM

Use of the receivable module in the new ERP system was limited upon implementation but will expand in use over time. The limited use highlighted a lack of internal controls that must be addressed to ensure accurate and complete reporting as the use of the receivables module is expanded.

Background: The new ERP system represents the first accounting system used by the State with an integrated accounts receivable module. While the module may not fully eliminate the need for manual recording of accruals during the fiscal close, it could greatly improve reporting of receivables if properly implemented over time. Future use of the receivable module will require transitioning from disparate systems or manual tracking to the new system at a set implementation date. Formal procedures and training will need to be provided to agencies using the receivables module.

Criteria: Management needs well-designed financial systems that support comprehensive internal controls over financial reporting, enable organization-wide efficiencies, and promote business continuity. Integrated functionalities

support appropriate internal controls, and eliminate inefficiencies resulting from multiple systems, duplicate data entry and ineffective communication between systems.

Condition: The State implemented a limited number of receivable categories into the new ERP system upon implementation. One of the limited uses resulted in a significant misstatement of receivables at year-end.

Cause: Misstatement caused by inaccurate data transitioned to the new ERP system and a lack of understanding by the agency of how the receivables module closed to the general ledger.

Effect: Misstatement of reported receivables in the financial statements at year-end.

RECOMMENDATIONS

- 2025-004a Fully reconcile agency receivable data prior to transitioning balances to the new ERP system at the scheduled transition date.
- 2025-004b Require agencies to reconcile accounts receivable balances reported by the ERP system monthly.
- 2025-004c Develop policies and procedures for adjusting or writing off receivables recorded in the module and ensure that agencies are fully trained on the module prior to transition.

Management's Views and Corrective Actions:

2025-004a: Agencies were required to fully reconcile receivable amounts before transitioning into the ERP system. A&C recognizes that not all agencies adhered to this directive and is addressing this in fiscal year 2026.

2025-004b: A&C requires agencies to reconcile accounts receivable balances reported by the ERP system quarterly.

2025-004c: A&C agrees and will develop a policy and procedure for adjusting or writing off receivables recorded in the module and ensure that agencies are fully trained on the module.

Anticipated Completion Date: Fiscal year 2026

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Finding 2025-005 (material weakness – repeat finding – 2024-005)

MEDICAID PROGRAM COMPLEXITY AFFECTS FINANCIAL REPORTING AND OVERALL PROGRAM CONTROLS

The continued and growing complexity of Medicaid program operations, coupled with the insufficient support of the State's antiquated Medicaid Management Information System, adds to the challenge of accurately accounting for all Medicaid program related financial activity within the State's financial statements.

Background: The complexity of the Medicaid program 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 program activity – approximating \$4.3 billion in expenditures or approximately 41% of the State's General Fund expenditures. Consequently, the financial aspects of this program are material to the State's financial reporting objectives.

Expenditures for individuals covered under managed care totaled \$2.1 billion, representing the majority of benefit expenditures reported for Medicaid.

Criteria: Management of the Executive Office of Health and Human Services (EOHHS) is responsible for establishing and maintaining internal control over financial reporting to ensure accurate and complete reporting of transactions in accordance with generally accepted accounting principles.

Condition: Ensuring all financial activity is properly and completely recorded in the State's financial statements is an increasingly complex task. Significant Medicaid program activity is currently being accounted for external to the systemic controls and processes designed within the Medicaid Management Information System (MMIS). The MMIS was developed as a claims processing system over 30 years ago and was not designed to meet the current processing and reporting needs of the State's managed care programs. Managed care requires a system that can handle capitation adjustments and a more robust adjudication of encounter data submitted by the State's contracted managed care organizations (MCOs). While the MMIS has been modified over time to handle the disbursement of capitation and the submission of encounter data, it lacks the functionality to completely process and account for managed care activity.

The following were examples of control deficiencies relating to Medicaid financial activity, some of which led to material misstatements requiring audit adjustments to correct financial reporting:

- Manual tracking of amounts due to and from MCOs are subject to error or omission. As an example, audit procedures identified a liability for managed care premiums due to MCOs totaling \$6.6 million that had not been accrued at year-end;
- Payments to and recoupments from providers and managed care organizations, each totaling more than \$391 million and \$85 million, respectively, were disbursed through system and manual transactions processed by the fiscal agent with authorization by the State Medicaid agency. These payments are not subjected to the claims processing controls of the MMIS and often require substantial manual calculations to determine the transaction amounts. These transactions (except for manual payments) are netted within the normal claims processing cycle activity and the MMIS lacks sufficient reporting capability for these transactions. EOHHS currently lacks internal controls and procedures to ensure that only authorized payments are processed. During fiscal 2025, the volume of payment and recoupment transactions were significant (more than 1,000 transactions) and individual system payout and recoupment transactions often exceeded \$100,000 (approximately 210 individual payments in 2025); and
- The MMIS's limited ability to process capitation adjustments and to process and report on encounter data makes it very difficult to estimate accruals relating to managed care. The State Medicaid agency currently relies on plan reporting from the MCOs to estimate final contract settlements requiring accrual at year-end. The accuracy of the data provided, the run-out period for providers to continue submitting claims, and the lack of complete encounter data reported in the MMIS remain challenges in accruing accurate managed care settlements at year-end.

While EOHHS's manual procedures are making every attempt to accurately and completely settle and account for its managed care activities, systemic controls do not currently support those efforts, and control deficiencies continue to impact the State's financial reporting. With the State currently exploring procurement for a new MMIS, significant focus should be placed on ensuring that controls over managed care capitation and claiming activity are significantly improved. In the near term, the State should look to utilize federally required audit procedures to improve controls over segments of the managed care settlement process that are currently not being validated.

Cause: The State does not currently have a system that can process retroactive capitation rate changes and/or changes in participant enrollment category to the extent needed to allow the system to fully account for managed care activity without manual payments and settlements. The current MMIS performs limited edits in encounter data submitted by the plans that are no longer adequate for the size and volume of medical claims covered under capitation. Insufficient system reporting for system payouts and recoupments increases the risk that material transactions are not identified that require reporting as prior period activity on federal reports and for financial reporting. The extent to which system payouts are not individually recorded in the State accounting system increases the risk that these transactions are not accounted for properly, as they bypass the State's centralized review procedures designed to ensure that transactions

are recorded in the correct accounts and reflected in the correct fiscal period. The State's manual tracking of amounts due to or from managed care organizations is inadequate to ensure the tracking and settlement of these amounts.

Risks relating to inaccurate financial reporting and federal noncompliance have increased due to the length of settlement periods, eligibility discrepancies between the claims payment system and the State's integrated eligibility system, retroactive capitation adjustments, and the volume of transactions being accumulated and evaluated independent of regular program controls.

Effect: Potential effects of this control deficiency include unrecorded or inaccurately recorded financial transactions, incorrect reimbursements to providers or managed care organizations, and noncompliance with federal regulations.

RECOMMENDATIONS

- | | |
|-----------|--|
| 2025-005a | Develop specific objectives for managed care data processing (i.e., premium and encounter data processing functionality) that will be required of and included in the specifications for the next MMIS. |
| 2025-005b | Minimize instances where material financial activities are reliant on manual processes to ensure proper financial reporting. |
| 2025-005c | Develop comprehensive reporting and reconciliation procedures for system payouts, manual disbursements, and system recoupments to improve controls over these transactions which are processed by the Medicaid fiscal agent. |
| 2025-005d | Improve controls over non-claims based financial transactions in the next MMIS to provide for individual reporting and proper financial accounting treatment. |

Management's Views and Corrective Actions:

2025-005a: EOHHS has, in conjunction with our MES Planning Vendor, documented the existing MMIS processes for premium payments, capitations, and encounters as well as the "To Be" state of these processes in the modernized and modularized MES via assessment of business needs. Additionally, a Gap Analysis was prepared to ensure needs were identified and incorporated accordingly into the procurement(s) for replacement systems that will perform in alignment with Rhode Island-specific needs and have the flexibility to achieve the Programs' objectives in these areas. Requirements Definition sessions for Core Module Procurement have been completed and we are working to resolve remaining action items related to these requirements. As part of the MMIS to MES Transformation Project, Procurement of the Core Module, includes Financial Management functions. The MES planning team has included the financial management team in requirements sessions related to financial management functionality in order to ensure the considerations required to resolve this finding are incorporated into the procurement.

2025-005b: EOHHS is aware of the risks associated with the manual payment process as it pertains to its financial activities. Manual payment processes vary, with some being a necessary condition of continued use of the State's legacy MMIS, while others are a desirable or required feature of our managed care programming. To reduce errors in manual processes to the extent possible, EOHHS will finalize a standard operating procedure (SOP) that details all known manual MCO payments (or related activities) and related processes to support training of new staff.

Further, steps taken to-date and future strategies to simplify Medicaid-related financial activities, improve financial reporting, and enhance oversight are outlined below:

1. Manual Capitation Payments:

Necessary updates are being factored into the development of requirements for the Core Module RFP, of which financial management functions will be part of the new MES. When implemented, this should significantly limit manual capitation adjustments. Retroactive adjustments to the rates are a frequent occurrence in Medicaid, noting such adjustments often necessitate a manual payment, creating risk of error. Such adjustments may be attributed to enrollment changes that impact individual clients or rate changes that impact all members enrolled in a given product.

In general, the need to do manual adjustments is caused by the limited ability for EOHHS' legacy MMIS to retroactively reprocess/correct prior months of premium payments. For EOHHS' monthly premium programs, i.e., Rhody Health Partners, Medicaid Expansion, RItE Smiles, PACE, etc., MMIS can only correct payments made within a three-month window -- retroactively for the prior month, the current month, and prospectively for the future month. For EOHHS' daily program (i.e. RItE Care), MMIS can only prospectively adjust the rates. Note, some improvements have been made, for example, for individual client adjustments, two exceptions were incorporated to allow for the system to retroactively make adjustments/payments. They include:

- *Payments going back to a newborn's Date of Birth; and,*
- *Recoupments going back to a recipient's Date of Death.*

These two scenarios contribute to the highest number of retroactive adjustments, aside from rate changes, with any other corrections outside of them still requiring manual adjustments.

With respect to rate changes, EOHHS limits the need to make retroactive payments where able. Capitation rates for each year are completed timely and executed ahead of a contract year, so that new contracted rates are in the system at the start of the year, or soon thereafter to minimize any manual payments.

However, in recent fiscal years – including every SFY between 2022-2026 – initiatives included in the enacted state budget that impact the rates have not passed until June, the month prior to the start of the new fiscal year. Such initiatives must be subsequently incorporated into the actuarially certified rates for current fiscal year (some cases the prior fiscal year). This process is not immediate, and the timeline for the enacted budget and subsequent rate certification is largely out of EOHHS' control. Resulting delays can lead to large manual payments. Further, legislatively mandated programs often have federal rules that result in retroactive capitation rate changes, such as the Certified Community Behavioral Health Center (CCBHC) program, which mandates rate updates that require reconciliation to cost reporting submitted after the start of a program (and fiscal) year.

Modern MMIS systems can reprocess such rate changes through the system, negating the need for manual payment. Until such system upgrades are implemented, payments associated with a retroactive rate change will remain a manual payment. Noting, as EOHHS works to modernize and modularize the current MMIS, MES in future-state, EOHHS has incorporated into our planning activities the inclusion of requirements to allow for systematic processing of both retroactive enrollment changes impacting individual clients, as well as general rate changes impacted entire populations.

2. Risk Share/Gain Share Settlements and Stop Loss Programs

EOHHS' risk share arrangements are a core component of its managed care contracts and minimize risk to both the MCOs and the State. Such payments or recoupments are made outside of capitation and are completed retrospectively based on financial reporting (additional details below). Therefore, if the state continues to include such risk-mitigation mechanisms in its contracts, any associated settlement will remain a manual payment.

MCO risk share/gain share settlements are based on MCO submitted reporting and validated against accepted encounter claims in the MMIS. The MCOs report quarterly through a "Financial Data Cost Report," or FDCR, where their membership, benefit expenses, including general ledger adjustments, sub-capitated arrangements, reinsurance arrangements, reserves, benefit expense recoveries, and administrative costs for each Premium Rating Group. These expenses are reported at either the rate cell and category of service level, or at the product level (RItE Care/Expansion, etc.). Annually, the MCOs must reconcile the information in its FDCR and their NAIC financial statements. The Agency also utilizes this FDCR data in rate setting and to monitor MCO financial performance throughout the year.

Across its core contracts, EOHHS has long-maintained other risk mitigation arrangements with its MCOs. For example, in FY 2025, EOHHS implemented a temporary separate risk share arrangement/corridor specific to the new CCBHS program. EOHHS also ended its separate Hepatitis C stop loss program in FY 2022 and its separate Covid-19-related vaccine stop loss program in FY 2024. For FY 2027, EOHHS will be entering into an Administrative Services Only (ASO) arrangement specific to high-cost drugs, i.e. cell and gene therapies, which will require manual payments on a defined basis throughout the year.

3. **State Directed Payments, Separate Payment Terms**

Rhode Island incorporates many state direct payments (SDPs) into its managed care contracts. These include legislatively mandated rate increases, e.g., for hospitals and nursing facilities, as well as minimum fee schedules, e.g., annual changes to the FQHC PPS encounter rate, and the Social and Human Service Programs Review recommended by OHIC. SDPs also include items with a separate payment term, inclusive of AE Incentive Payments (concluded in SFY 2025), and the separate payment term SDP for hospitals enacted in SFY 2024.

Separate payment terms allow the State to be very precise in how much and/or to whom payments are ultimately made. These separate payment terms are paid outside of capitation, thus necessitating the involvement of a manual calculation and payment. SDP payments made outside of capitation will be largely disallowed per updated federal rules and regulations, ceasing current and future separate payment terms, and ultimately incorporating these SDPs into monthly premiums. This is currently anticipated to take place in SFY 2029.

2025-005c: EOHHS acknowledges the limitations of the current MMIS and the number of manual transactions resulting from these limitations. EOHHS will include in its procurement of specific MMIS modules requirements that reduce the number of manual calculations staff complete. In the interim, Medicaid financial management will create a standard operating procedure that ensures monthly checks of finance approved system payouts, manual disbursements, and system recoupments to improve controls over these transactions. At a minimum, the SOP will include the use of the Fiscal Agency Control Number (FACN) Monthly Tracking log to:

- (1) Identify all FACNs approved by Medicaid financial management
- (2) Identify types of financial FACNs Medicaid financial management approved
- (3) Sample selections of each FACN sub type
- (4) Review state accounting system transactions and MMIS generated reports to confirm that the fiscal agent properly completed the requested financial transactions
- (5) Document that this control process occurred each month

Additionally, EOHHS will request that its fiscal partner produce a monthly recoupment report for Medicaid financial management to better track and document recoupments.

2025d: EOHHS, in conjunction with our MES Planning Vendor, is evaluating the existing non-claims based MMIS financial transactions and reason codes and has documented the current business processes related to this work as well as the "To Be" state of those processes in the modernized and modularized MES. To ensure these business needs are met, a Gap Analysis has been prepared related to the Financial Management work and that analysis will be incorporated accordingly into the procurement(s) for replacement systems that will perform in alignment with Rhode Island-specific needs and/or have the flexibility to achieve the Programs' objectives in these areas.

Anticipated Completion Dates:

2025-005a: On-going. EOHHS anticipates the procurement of the Core Module, which would address this finding, to begin in calendar year 2027. Implementation of the Core Module will not be complete for several years.

2025-005b: Ongoing. EOHHS anticipates the procurement of the Core Module, which would address some manual adjustment activity, to begin in calendar year 2027. Implementation of the Core Module will not be complete for several years. Anticipated completion date for finalized SOP: September 2026.

2025-005c: SOP regarding review of FACN Monthly Tracking log to be operationalized no later than 10/1/2026. Receipt of monthly recoupment report for Medicaid finance management is TBD as request must be submitted before estimated date of completion can be determined.

2025-005d: On-going. EOHHS anticipates the procurement of the Core Module, which would address this finding, to begin in calendar year 2027. Implementation of the Core Module will not be complete for several years.

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Finding 2025-006

(material weakness – repeat finding – 2024-006)

CONTROLS OVER ACCRUALS AND YEAR-END ADJUSTMENTS RELATING TO THE MEDICAID PROGRAM

Controls to ensure the completeness and accuracy of reported accruals and year-end adjustments relating to the Medicaid program in conjunction with the State’s fiscal closing are lacking.

Background: Receivables and liabilities relating to the Medicaid program at year-end totaled \$107 million and \$293 million, respectively. Year-end accruals also included \$180 million in prepaid managed care capitation premiums for health insurance coverage for Medicaid recipients. Medicaid accruals represent significant financial activity recorded during the State’s fiscal closing.

Criteria: Management is responsible for establishing and maintaining internal control over financial reporting to ensure accurate and complete reporting of transactions in accordance with GAAP. GAAP require that expenditures are recorded in the correct financial period and, when necessary, estimates can be recorded by management to ensure the completeness of financial reporting.

Condition: The estimation, calculation, and reporting of year-end accruals is an entirely manual process involving no systemic controls to ensure the accuracy and completeness of reported amounts. Accruals for certain benefit expenditures and recoveries associated with the Medicaid program were misstated at June 30, 2025. In addition, certain year-end adjustments recorded at June 30, 2025 were incorrect, significantly misstating reported expenditures.

Cause: Misstatements relating to the recording of year-end closing adjustments and accruals relating to the Medicaid program, generally resulted from:

- a) Certain estimates where underlying data used at year-end was not adequate to estimate remaining liabilities or receivables to be recorded due to changes in activity during the year (e.g., claim increases/decreases for periods being accrued);
- b) Agencies incorrectly estimated liabilities and/or receivables at year-end; in certain instances, staff turnover and the loss of institutional knowledge likely contributed to the errors or omissions;
- c) Utilizing data provided by managed care organizations for estimates without factoring the impact of additional medical claim run out required for the plan year; and
- d) Errors made during the manually intensive calculations required by certain estimates.

Effect: Omissions and misstatements in the recording of adjusting journal entries and year-end accruals are resulting in material misstatement of the financial statements.

RECOMMENDATIONS

2025-006a	Improve overall review processes for material journal entries to ensure complete and accurate financial reporting.
2025-006b	Improve procedures over the identification and determination of receivables and liabilities relating to the Medicaid program to ensure complete and accurate recording at year-end. Consider adjusting estimation methods where prior period accruals have been inconsistent with historical results.
2025-006c	Evaluate prior period estimates to actual results to ensure that methodologies remain appropriate.

Management's Views and Corrective Actions:

2025-006a: EOHHS acknowledges the risks associated with an entirely manual accrual and year end adjustment process. Absent the system capabilities to remedy this, EOHHS will improve standard operating procedures to include additional review of source data, collation of source data, and review of formula calculations for accruals. These steps will be built into analyst training before SFY 2026 closing activities occur. Medicaid finance will update related SOPs.

To strengthen the accrual process at sister agencies having Medicaid accounts, Medicaid Finance will share training resources with its sister agencies, including SOP examples and internal trackers. EOHHS will request that each sister agency provide Medicaid finance a listing of common annual accruals and year end adjustment so that Medicaid finance can request evidence from sister agencies that each accrual and year end adjustment was completed.

2025-006b: EOHHS acknowledges that it can improve standard operating procedures over the identification and determination of receivables and liabilities relating to the Medicaid program to ensure complete and accurate recording at year-end. However, EOHHS also acknowledges the majority of our year-end accruals are estimates based on the latest data available. EOHHS has continuously worked on refining estimation methods, noting estimates will never match reported actual given the immense scale of an ever-evolving multibillion-dollar program, particularly around updated/amended federal law and regulations, which impact enrollment and expenditures.

To continue to build understanding in internal control and oversight, Medicaid finance sent two employees to a two-day training organized by the Office of the Auditor General on internal controls in May 2026. The two employees will work to implement additional controls and oversight to reduce risk in the accrual and year end adjustment process. These include, but are not limited to:

- 1. Review of SFY 2025 missing accruals and ensuring they are included in year-end close SOPs.*
- 2. Identification of year end accruals that are frequently subject to revision post submission, specifically on the managed care side. For identified accruals, team members will review historical accruals and post-accrual adjustments to identify trends to improve estimation.*
- 3. Build additional checks of underlying formulas in complex manual calculations.*
- 4. Review revised and updated SOPs with entire fiscal staff.*

2025-006c: As stated for 2025-006b, the majority of our year-end accruals are estimates based on the latest data available. EOHHS has continuously worked on refining estimation methods yet will never be exact when working with a multibillion-dollar program that is constantly changing with updated federal law and regulations, which impact enrollment and expenditures.

While EOHHS uses the most complete data available at year-end to prepare its accrual entries, with certain expenditure categories inherently contain significant/unavoidable uncertainty, due to timing and general incompleteness data and not due to estimation methodology. It is because of this known limitation with data availability that EOHHS partners with the Office of the Auditor General and Accounts and Control in the months following fiscal close to propose revisions to its accruals that incorporate more recent available data.

In addition to the four internal controls illustrated in 2025-006b, EOHHS will include evaluating prior closing period estimates to actuals as a documented step in our year-end accruals SOP and will continue to explore ways to reduce volatility in future accruals.

Finally, as stated in previous findings, i.e. 2024-006a and 2024-006b, post-closing updates for risk/gain share payments/recoupments are typically the most volatile and largely unavoidable and necessary due to incompletes of data relative to closing, i.e. the health plans have not paid and are unaware of all claims for all applicable dates of service. This makes it difficult for EOHHS to determine the “correctness” or “adequacy” of the certified capitation rates in relation to the claims paid. Understanding the precise magnitude of that variance requires continued refinement and completeness of the health plan’s claims data, any collection of re-insurance payments or supplemental rebates, among other adjustments to a plan’s benefit expenses. EOHHS acknowledges the importance of issuing financial statements that comply with generally accepted accounting principles and thus welcomes suggestions for improvements to its methodological approaches to reduce the volatility in these areas.

Anticipated Completion Dates: 2025-006a&b: August 2026
 2025-006c: Ongoing. Anticipated completion date for finalized SOP: September 2026

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Finding 2025-007 **(significant deficiency – repeat finding – 2024-007)**

CONTROLS OVER PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Controls over the preparation of the Schedule of Expenditures of Federal Awards (SEFA) can be enhanced to ensure all program activity, including amounts passed through to subrecipients, is accurately reported by Assistance Listing Number (ALN).

Background: During fiscal 2025, the State migrated accounting data to its new ERP system for purposes of conducting its fiscal closing in the new system. In the prior accounting system, ALNs were tied to specific appropriation accounts based on the adopted budget. Following transition to the new ERP system, and its integration with Euna Grants (Euna), a cloud-based Grants Management System, the ALN is tied to grant information in Euna, not specific appropriation accounts within the ERP’s accounting structure. The appropriation accounts are budgeted to certain ALNs, however there is no direct linkage between appropriation accounts and ALNs within the State’s accounting system, leading to additional SEFA reporting challenges in 2025.

Criteria: 2 CFR 200.510(b) states “The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee’s financial statements which must include the total Federal awards expended as determined in accordance with §200.502”.

The preparation of an accurate SEFA is critical to the proper recording of federal revenue and expenditures in the financial statements and to ensure that the State can comply with federal Uniform Guidance (2 CFR Part 200) when submitting the State’s *Single Audit Report* required by federal regulations.

Condition: While federal expenditures are reported accurately in the State accounting system based on disbursements for most federal programs and the State as a whole, adjustments are still needed, especially for a statewide Single Audit that also includes federal expenditures of component units, to ensure that expenditures are accurately reported

on the SEFA. Several adjustments to expenditures, reported in the State accounting system, were necessary to accurately report the federal expenditure activity for fiscal 2025:

- *Nationally Significant Freight and Highway Projects (20.934)* – During fiscal 2025, the Rhode Island Department of Transportation (RIDOT) became aware of a change in Assistance Listing by the federal grantor for a particular award. RIDOT adjusted fiscal 2025 expenditures to move cumulative expenditures for this award to the proper ALN, which included \$25.9 million of prior year expenditures. This amount overstated fiscal 2025 expenditures for Nationally Significant Freight and Highway Projects, while understating program activity for Highway Planning and Construction (20.205). Adjustment to the SEFA was required to accurately report program fiscal 2025 activity for the respective programs.
- *Grants to States for Medicaid (93.778)* – In accordance with provisions in the State’s section 1115 waiver, the State receives federal match for certain Designated State Healthcare Program (DSHP) expenditures when incurred. Those proceeds must be utilized to fund the State match for certain Healthcare Systems Transformation Programs (HSTP). HSTP expenditures from restricted DSHP funding totaled \$4.1 million in fiscal 2025 and required addition to reported federal expenditures on the SEFA.
- *Other Adjustments (multiple programs)* – Adjustments totaling \$52.3 million were needed to prevent duplication of reported federal expenditures for amounts passed through to component units that are included in the State’s financial reporting entity. In addition, we identified and adjusted certain federal accounts with reported expenditures approximating \$4.3 million in the State accounting system that were either not linked or incorrectly linked to federal programs.

In addition to adjustments for the primary government’s federal expenditures, the State does not adequately review and monitor reported federal expenditures of the discretely presented component units. Such monitoring and oversight are necessary to ensure proper reporting as Rhode Island submits a *Single Audit Report* for the entire financial reporting entity. The State also needs to improve its accumulation of required note disclosures that accompany the SEFA to ensure compliance with federal Uniform Guidance requirements.

Cause: There is a disconnect between the agency personnel responsible for accurate recording of federal expenditures in the SEFA and the Office of Accounts and Control, the agency that prepares the SEFA from the accounting system.

Effect: Without correction, the SEFA would not accurately present federal expenditures with required note disclosures in accordance with the Uniform Guidance requirements.

RECOMMENDATIONS

- | | |
|-----------|--|
| 2025-007a | Ensure policies and procedures for presenting the SEFA and required note disclosures are consistent with Uniform Guidance requirements. |
| 2025-007b | Implement a structured preparation schedule that will ensure a complete and accurate SEFA can be provided along with the State’s fiscal closing. |

Management’s Views and Corrective Actions:

2025-007a: The State agrees with the recommendation and is working with a third-party vendor to produce a SEFA process through Workday using Workiva.

2025-007b: The State agrees with this recommendation.

Anticipated Completion Date: Q1 2027

Contact Person: Steve Thompson, Associate Controller, Office of Accounts & Control
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Finding 2025-008**(material weakness – repeat finding – 2024-008)**CONTROLS OVER FEDERAL PROGRAM FINANCIAL ACTIVITY

The State should continue improving controls over recording federal revenue through the integration of the grants management system with the newly implemented ERP system to ensure 1) amounts are consistent with the limitations of grant awards from the federal government and 2) claimed expenditures on federal reports are consistent with amounts recorded in the State’s accounting system.

Background: Federal programs represented 45% of fiscal 2025 General Fund expenditures. Some federal grants are open-ended entitlement programs where the federal government will reimburse the State for all allowable costs incurred under the program. Other federal grants are limited by a specific award amount and grant period. These grant periods are often for the federal fiscal year and are not aligned with the State’s fiscal year.

The State utilizes Euna to manage several federal grant functions. In fiscal 2024, the State began requiring most subrecipient payments to be authorized through Euna prior to being processed for payment through the State accounting system. This process, while an improvement of controls over disbursements to subrecipients, represented the only integrated use of Euna with the State accounting system during fiscal 2025 operations to ensure compliance with grant budgets and award authority.

Criteria: Federal revenue and expenditures recorded by the State must be consistent with the limitations of grant awards from the federal government, and claimed expenditures on federal reports must be consistent with amounts recorded in the State’s accounting system.

Condition: Knowledge of grant requirements, spending authorizations, and limitations on reimbursable expenditures all rest with departmental management, who administer the federal grant programs. The Office of Accounts and Control, in preparing the State’s financial statements, relies primarily on the coding of expenditures (by funding source – federal) within the State accounting system. All expenditures recorded in federal accounts are considered reimbursable from the federal government and federal revenue is accrued to match unreimbursed expenditures at year-end. From an overall statewide perspective, controls over financial reporting are ineffective to ensure that all federal expenditures are reimbursable and federal revenue is recognized appropriately. Compensating controls in the form of agency reconciliations of federal reports to the accounting system are not performed consistently or accurately to minimize the need for stronger statewide controls.

While the implementation of the new ERP system began July 1, 2025, integration with Euna Grants was not fully established until October 2025. The State’s focus now will be on developing processes and controls between the new ERP and Euna integration that addresses the following internal control deficiencies relating to federal program financial activity:

- *Controls are not currently effective to ensure that federal expenditures are only recognized when sufficient federal grant authority exists* – Federal expenditures should only be recognized if Euna reports sufficient federal grant authority at the time of the transaction. The effectiveness of this interface will require agencies to delineate the applicable grant period when processing transactions in the accounting system to be fully effective.
- *Controls to ensure that federal expenditures are reported consistent with allocation processes approved by the federal government are currently lacking* – Since the new ERP system will not include an integrated cost allocation function, agencies will need to utilize the new ERP system to more accurately allocate costs to federal programs (using time reporting and purchase order allocation functions). Improved cost allocations at disbursement will lessen the significance of periodic adjustments required to align reported expenditures to final cost allocation results.
- *Controls to ensure that agencies are drawing federal funds timely and accurately are lacking* – Improve monitoring by creating better management reporting to identify and remedy instances where agencies are not drawing down federal funds in a timely manner or have drawn amounts in excess of reported federal expenditures.

- *Current reconciliation processes to ensure that amounts reported on federal reports are in agreement with the State accounting system are inefficient or lacking completely* – Streamline and improve the reconciliation of federal expenditures reported in the accounting system with amounts reported by agencies on federal reports.

The State will need to consider standardized processes, reporting, and/or enhanced integration needed between Euna and the ERP system to sufficiently address the above deficiencies. In certain instances, the State will need to utilize reporting from the new ERP system to implement monitoring controls to accomplish the above objectives.

Cause: Sufficient controls were not implemented within the legacy accounting system, and full integration with the new ERP system was not operational during the 2025 fiscal close to ensure amounts were consistent with the limitations of grant awards from the federal government, and claimed expenditures on federal reports are consistent with amounts recorded in the State’s accounting system.

Effect: Federal revenue could be overstated and not detected for financial reporting purposes. The share of program costs allocable to funding sources (i.e., general revenue vs. federal revenue) could be misstated.

RECOMMENDATIONS

- 2025-008a Continue to utilize Euna and its functionalities to improve controls over federal program financial activity.
- 2025-008b Implement a monitoring process that highlights variances between the State accounting system and federal reports to ensure that adjustments are made in a timely manner to correct reporting.
- 2025-008c Ensure that the interface of Euna with the new ERP system and other adopted procedures effectively achieve the above control objectives.

Management’s Views and Corrective Actions:

2025-008a: The State agrees with this recommendation.

2025-008b: The State agrees with this recommendation.

2025-008c: The State agrees with this recommendation and has developed a review process to ensure accurate federal award information is entered into Euna and then passed to Workday via system integration.

Anticipated Completion Date: Fiscal Year 2027

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Finding 2025-009

(material weakness – repeat finding – 2024-009)

INVESTMENT NEEDED FOR MODERNIZATION OF THE STATE’S TREASURY FUNCTIONS

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.

Background: The Office of the General Treasurer (Treasury) is responsible for the State’s cash management functionality which includes oversight of deposit balances with multiple financial institutions, investment of cash balances, maintaining liquidity to meet obligations, and ensuring the safety of deposits and short-term investment balances.

At June 30, 2025, the State's short-term deposit, investment portfolio (exclusive of pension and OPEB related investments), and funds on deposit with fiscal agent (State debt proceeds, which are held in trust by fiduciaries but subject to the State's monitoring of permitted investments and other contract requirements) totaled in excess of \$2.9 billion. Organizations of a similar size and complexity would typically have sophisticated and integrated information technology systems to facilitate daily cash management operations and ensure compliance with deposit and investment guidelines.

The Treasury has utilized various applications to facilitate its cash management functionalities, but none have been integrated with the State's accounting system. Effective July 1, 2025, the State implemented a new ERP system which included integrated cash management functionalities within the project scope. In addition, the Treasury has been working with a consultant to develop a comprehensive plan to modernize information technology in Treasury operations. This would include automation of critical Treasury functions that are currently manually intensive and prone to error. The comprehensive plan was completed in fiscal 2025 providing several recommendations to the Treasury. The majority of recommendations have been incorporated into a banking request for proposal issued by the Treasury in fiscal 2026. Other recommendations include expanding the Treasury's use of current applications to better manage collateral risk and investment manager oversight.

Criteria: Management is responsible for ensuring internal controls over Treasury operations are well designed and effective. Most important within Treasury operations is ensuring segregation of duties. Treasury is also responsible for ensuring the safety and liquidity of the State's deposits and for ensuring compliance with the deposit and short-term investment guidelines of the State Investment Commission.

Condition: Treasury activities are not adequately supported by current technology that accesses and integrates data from multiple sources (e.g., accounting system, banks, custodians, investment counterparties). Data is independently gathered from a variety of sources, which is time consuming and inefficient. Given the current configuration of non-integrated applications, there is an insufficient number of staff assigned to these functions to allow adequate segregation of duties. The following control deficiencies were noted in the systems and processes used to manage the State's cash deposits and short-term investments:

- Difficulties in ensuring segregation of duties relating to the transfer of funds and the recording and reconciling of investment activity.
- The State is currently utilizing Excel to record the purchase and sale of investments. The program is used to journalize summary investment activity into the State's accounting system. While functional, the lack of transaction level detail being recorded in the State's accounting system, coupled with the lack of controls that a more substantial software application would include, increases the risk of error or omission.
- Managing compliance with investment diversification policies (promulgated by the State Investment Commission) and statutory collateralization requirements (mandated for the State's cash deposits) requires continual monitoring to ensure compliance. The Treasury currently lacks a modern cash management system that would facilitate compliance monitoring, requiring those functions to be performed by personnel already depended on for various other Treasury functions. Current monitoring procedures are prone to errors, including the omission of State deposit accounts, when evaluating collateralization requirements.
- The Treasury lacks dedicated internal audit and information security functions, common in most state Treasury operations, to ensure that financial and information security controls are in place and operating effectively.

Ensuring that the new ERP system, individually or in combination with other applications, effectively addresses the control deficiencies and inefficiencies noted above will be critical to modernizing Treasury functions over the next several years.

Cause: The current systems do not contribute to segregation of duties, and staffing is insufficient to adequately segregate the functions with the required redundancy needed in various positions. Current use of Excel lacks required access, data integrity, and other systemic controls to safeguard the recording of the State's short-term investment activity. There is a lack of sufficient technology and personnel resources needed to manage compliance with investment diversification policies and statutory collateralization requirements.

Effect: There is an inability to (1) maintain proper segregation of duties in key Treasury operations, (2) evaluate and monitor financial and operational controls, and (3) effectively monitor compliance with diversification and permitted investment requirements, as well as collateralization policies, for the State’s cash and investments.

RECOMMENDATIONS

- 2025-009a Complete the contracted assessment of Treasury operations to identify potential modern technological and/or contract service solutions needed to manage the size and complexity of the State’s current cash management and investment operations.

- 2025-009b Develop a strategic plan (inclusive of implementation phases and funding plan) needed to modernize the utilization of technology in Treasury operations.

- 2025-009c Emphasize integration with the State’s new ERP system to maximize the efficient and effective operation of the State’s financial systems.

Management’s Views and Corrective Actions:

2025-009a: Treasury engaged PFM to provide Banking/Cash Management Consulting services following a 2024 RFP. With PFM’s support, Treasury issued a comprehensive banking and cash management RFP in May of 2025 to help ensure that the State’s short-term cash operations are managed efficiently and supported by up-to-date technology. A number of key initiatives underscore this commitment. The implementation of standardized file transmissions, including BAI2 and API integrations, will provide the State with more streamlined, consolidated access to bank activity. Through this effort, nearly all Treasury cash movement will be processed through G-Treasury and manually entering wires through bank portals will be phased out, reducing risk of error. Remote Deposit Capture has also been leveraged to eliminate risk of in-person bank deposits. With the RFP evaluation process now complete, Treasury is working with PFM to consolidate our banking relationships from 17 to 8 institutions, including going from 5 to 3 institutions for our primary operations. Treasury has begun coordination and implementation activities with state agencies to support those transitions, which are expected to continue through fiscal 2027.

2025-009b: Treasury utilizes G-Treasury as its workstation for initiating wires and viewing bank balances. PFM’s assessment of Treasury’s cash activities identified an opportunity for the State to augment its use of G-Treasury services in order to modernize the systems used for managing the State’s cash. Treasury has since added G-Treasury’s accounting module, which is expected to facilitate a transition from the current Excel-based database to a more secure and modernized cash management system. The accounting module remains in the onboarding phase, with implementation anticipated in fiscal year 2027. Treasury staff also continue to evaluate more tools, including cash forecasting technology, and will continue to request appropriations and explore collaborative funding opportunities with other state agencies.

2025-009c: Treasury remains actively engaged in inter-agency discussions on the State’s new ERP system and continues to evaluate opportunities to improve integration between Treasury’s cash management functions and Workday. Treasury is currently working to connect its G-Treasury workstation with Workday, which is expected to better align banking activity with ERP functionality. Additionally, the implementation phase of the banking RFP will support further Workday integration.

Anticipated Completion Date: Ongoing

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Finding 2025-010**(significant deficiency – repeat finding - 2024-010)**VOLUME OF ACCOUNTING SYSTEM JOURNAL ENTRIES

There is an excessive volume of journal entries recorded within the accounting system. This volume weakens controls over the appropriate authorization and classification of expenditures and limits transparency regarding the underlying transactions.

Background: More than 10,000 journal entries were processed during fiscal 2025 in the RIFANS accounting system through June 30, 2025. An additional 38,000 journal entries were used to record receipts/revenues. The State implemented its new ERP system on July 1, 2025, performing the 2025 fiscal closing process and generating financial reporting in the new system. This implementation resulted in over 2,000 additional journal entries during the fiscal closing alone.

Criteria: Initiation and approval of journal entries is typically restricted to a small number of higher-level accounting staff to record specific financial reporting related entries or to make corrections.

Condition: A significant volume of journal entries were required during fiscal 2025 due to the lack of functionality in the RIFANS accounting system and a significant number of journal entries required in conjunction with the fiscal closing and conversion to the new ERP system. For example, journal entries continued to be utilized to:

- Allocate costs to multiple programs and activities. These journals primarily adjust expenditures based on the results of various disparate federal cost allocation systems and agency time reporting systems that are utilized throughout the State;
- Record receipts due to the lack of a revenue and receivable module in the RIFANS accounting system; and
- Reclassify expenditures recorded in governmental funds to facilitate capital asset recording in the government-wide financial statements.

Journal entries typically are considered higher risk from an internal control perspective as approval level controls require appropriate understanding and review of complex transactions to be effective. As the volume increases, less time is allocated to review and approve each transaction, threatening the effectiveness of the control and resulting in an inadequate review. Attaching sufficient documentation to journal entries to allow for informed approval by the reviewer also remained a challenge. In addition to often requiring substantial reviews of manual calculations that support journal entries, evaluating the adequacy of journal entries processed requires significant agency budget and programmatic knowledge, often lacking by the approvers of the transactions processed.

While the new ERP system is expected to eliminate the use of journal entries to record cash receipts, a significant number of adjustments is still anticipated, reinforcing the need for comprehensive review by agency chief financial officers or other finance managers to ensure that transactions are accurate, complete and properly reported in the financial statements. Several adjustments were proposed to correct misstatements of financial activity reported through journal entries during the fiscal close, highlighting the need for additional controls over journal entries. While the new ERP system does segregate the initiation and approval of receipts and certain allocations from journal entries, the State will need to ensure that agencies properly manage cost allocations and agency payroll allocations to reduce the volume of journal entries and fully realize the benefits of an integrated ERP system. Establishing purchase orders and assigning payroll allocations that accurately identify the correct budgetary line item and revenue source allocations for expenditures will be key to minimizing the volume and size of journal entries required.

Cause: The lack of integrated functionality relating to cost allocation subsidiary systems, agency subsidiary systems used for disbursements and receipts, and a host of centralized services that require billing across the primary government all contribute to the high volume of journal entries recorded in the State accounting system. Journal entries are also often supported by intensive manual spreadsheets that are difficult to review, and agency managers often lack sufficient knowledge to review and validate the journal entries when approving them.

Effect: Controls are weakened through the large volume of high-dollar transactions that are recorded through journal entries, increasing the possibility that a material misstatement could occur and remain undetected in the normal course of operations.

RECOMMENDATIONS

- 2025-010a Enhance review and oversight of material journal entries to ensure appropriate recording of transactions and avoid misstatement of the financial statements.

- 2025-010b Monitor agency use of journal entries in the new ERP system to identify how utilization of new ERP functionality could minimize the volume and size of these transactions to the extent possible.

Management’s Views and Corrective Actions:

2025-010a: Management agrees that in the prior accounting system there was a need to enhance review and oversight of material journal entries. This was addressed with the implementation of the ERP system in the determination of the business workflows and approval thresholds.

2025-010b: One of the primary purposes of the ERP implementation for financial management was to reduce the need for journal entries to properly record payroll cost allocations, asset acquisitions, banking transactions, and charges to federal awards. This integrated system has reduced the requirement to use a journal entry to properly record a transaction. A&C will continue to improve these activities and controls as system use matures.

Anticipated Completion Date: Ongoing

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Finding 2025-011 **(significant deficiency – repeat finding - 2024-011)**

PREPARATION OF THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

The State’s government-wide financial statements often require audit adjustments to correct misstatements caused by the utilization of significant manual procedures that are prone to error.

Background: The State accounting system maintains accounting records to support the preparation of the government-wide financial statements (accrual basis of accounting) and the governmental fund financial statements (modified accrual basis of accounting). This is accomplished in the new ERP system through a designed government-wide reporting “book” that compiles fund level activity with distinct government-wide reporting transactions necessary for full accrual reporting. A capital asset module is utilized to maintain detailed recording for capital asset categories (except for project-based assets such as infrastructure and construction in progress, which are tracked and recorded through more manual processes) throughout the year, and support presentation on the government-wide financial statements. The State’s debt obligations are managed through a separate application that is not integrated with the accounting system, requiring manual journal entries to accurately record debt-related activities. Conversion entries are utilized to record noncurrent assets and liabilities and to reclassify fund-level activity as needed. A significant amount of manual processing, mostly in Excel workbooks, is required to compile data needed to prepare these conversion entries.

Criteria: Management is responsible for maintaining controls that prevent or detect material misstatements in the government-wide financial statements. GAAP require the completion of reconciliations between the governmental

funds and the government-wide Statements of Net Position and Activities as a key control over the accuracy and completeness of reported Governmental Activities.

Condition: The fiscal 2025 draft government-wide financial statements required several audit adjustments to ensure proper and accurate presentation. The State continues to be challenged in providing a complete and accurate government-wide financial statement with the required reconciliations between the government-wide and governmental fund financial statements in a timely manner. Adjustments in fiscal 2025 were largely attributed to (1) net position reclassifications, (2) revenue categorization differences between operating and capital grants, (3) misstatements in reported capital assets, and (4) reporting long-term liabilities and receivables.

Cause: Most misstatements related to errors in process or classification which occur in conjunction with manual processes inherent in the State's current preparation of the government-wide financial statements.

Effect: Material misstatements could exist and not be detected in the government-wide financial statements.

RECOMMENDATIONS

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| 2025-011a | Enhance procedures for preparing the government-wide financial statements to ensure consistent and accurate recording of transaction activity. Minimize manual processes to the extent possible when preparing the financial statements. |
| 2025-011b | Implement quality control procedures designed to detect and correct misstatements in the government-wide financial statements. |

Management's Views and Corrective Actions:

The process for preparing the government-wide financial statements changed with the ERP implementation. A&C worked with a vendor to automate the ERP system with the report generating software. Although the automation was not complete for fiscal year 2025, as A&C was bridging two accounting systems, this integration will be fully utilized in fiscal year 2026.

With the implementation of the new ERP system, combined with Workday automation, the State will be able to significantly reduce the level of manual input required to prepare the government-wide financial statements. We estimate that approximately 70% of the manual FSOs currently prepared in anticipation of completing the entity-wide financial statements will be eliminated during fiscal year 2026.

In addition, the reconciliation process between modified accrual and full accrual accounting has been automated and will be completed as part of the government-wide financial statement preparation process prior to draft submission.

Anticipated Completion Date: Fiscal year 2026

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Finding 2025-012**(significant deficiency – repeat finding-2024-012)****CONTROLS OVER REPORTING OF LEASES AND SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS**

Controls over the identification and reporting of leases and subscription-based information technology arrangements (SBITAs) applicable to GASB Statements No. 87 and No. 96 were insufficient to ensure all applicable agreements were properly recorded.

Background: Lease and subscription agreements are executed at the agency level and then reported to the OAC. The OAC devised a standard template for the agencies to use to report the active agreements, including changes to existing agreements (such as extensions of the term, changes in rent/price that were subject to an index, etc.).

The OAC employs EZLease, a cloud-based software application, to track the leases and SBITAs applicable to GASB Statements No. 87, *Leases*, and No. 96, *Subscription-Based Information Technology Arrangements*. EZLease also calculates and provides the necessary journal entries, based on the data entered for each agreement, to aid the financial reporting process.

Criteria: GASB Statements No. 87 and No. 96 require governments to recognize new leasing and subscription agreements as other financing sources in the fund financial statements and record a long-term liability with a right-of-use asset on the government-wide financial statements.

Both GASB Statements also require governments to remeasure reported assets and liabilities, when applicable, in reporting periods after the initial year of measurement for changes in the agreement terms, contract extensions, and/or changes in underlying estimates used during the initial measurement.

Condition: Amounts reported for other financing sources, capital outlay, assets, and liabilities were materially misstated, requiring adjustment, in the respective financial statements due to several errors noted during our audit, including, but not limited to, the following:

- Several leases and SBITAs that were reported by respective agencies were not accounted for properly in EZLease due to the underlying reporting template not being properly completed.
- Several new leases and SBITAs that were not accurately measured to determine the right-of-use asset and related liability amounts (inclusion of service/maintenance costs, incorrect frequency of payments). These measurement issues created additional errors in amounts presented as related debt service, reduction of liabilities, and amortization of the right-of-use assets.
- Certain misstatements noted were caused by a misinterpretation of the journal outputs generated by EZLease and activity recorded in the general ledger in previous fiscal years.

Cause: Inaccurate completion of agency reporting templates led to improper recording of lease and SBITA activity during the fiscal year. Review of agency-provided templates was insufficient to accurately identify all applicable agreements that are required to be reported by GASB. Additionally, review of changes to existing agreements did not result in proper accounting treatment based on the specific circumstances of the arrangements.

Effect: Material misstatements of the financial statements are not being detected and corrected.

RECOMMENDATIONS

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| 2025-012a | Improve internal controls by implementing supervisory review procedures over the determination, recording, and adjustment of reported assets and liabilities relating to leasing and subscription-based information technology arrangements. |
| 2025-012b | Enhance monitoring controls over tracking of historic information to ensure fiscal year activity is consistent with balances recorded in the general ledger. |

2025-012c Educate agency personnel on how to more accurately complete the standard template, including the level of detail required to properly evaluate leasing agreements and subscription-based IT arrangements, in accordance with applicable accounting standards.

Management's Views and Corrective Actions:

2025-012a: A&C has review procedures in place to identify missing information provided by State agencies. However, the lack of staff coupled with the failure of agencies to accurately complete the templates provided by A&C led to an increase in missed agreements.

In the ERP system, recording of these agreements occurs when the agency makes the purchase. This will help with year-end procedures; refer to 2025-10b for discussion of internal controls over processing of transactions. A&C will work toward securing additional resources to assist with appropriately recording agreements in compliance with GASB 87 and GASB 96.

2025-012b: A&C will inform agency management of the need to maintain their tracking sheet and keep it updated year-to-year to reflect changes in lease and SBITA agreements. A&C will also request a certification from agency CFOs that their finance teams have done due diligence to review, identify, and report applicable GASB 87 and 96 agreements. A&C will serve as a resource for questions on specific agreements if presented by agencies.

2025-012c: Education was provided to agencies when standards were implemented. A&C also provides detailed instructions on how to identify and evaluate lease agreements and subscription-based IT arrangements every fiscal year as part of the closing process. Nevertheless, A&C is bringing in a consultant to assist with educating agency personnel on the recording of transactions in relation to recently issued GASB standards.

Anticipated Completion Date: Ongoing

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Finding 2025-013

(significant deficiency -new finding)

CONTROLS OVER REPORTING OF CAPITAL ASSETS

Controls did not operate effectively in fiscal 2025 to ensure accurate and complete reporting of capital assets.

Criteria: Management is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Condition: A significant number of audit adjustments were needed to adjust or record capital asset amounts reported in the financial statements. Specifically, significant misstatements in reported capital assets were most notable in construction in progress and intangible asset categories (e.g., land easements). Omissions and misstatements relating to the reporting of contributed capital in conjunction with capital asset acquisitions and gains or losses in conjunction with asset disposals were also noted. Other misstatements impacting capital assets are reported separately in findings relating to leases and subscription-based information technology arrangements (Finding 2025-012) and transportation infrastructure (Finding 2025-018) due to the unique processes relating to the recording of those asset categories.

Cause: Changes in personnel and the conversion to the new ERP system contributed to deficiencies in controls over capital asset recording in fiscal 2025. The State also lacks monitoring controls to detect and correct misstatements and omissions in capital asset reporting.

Effect: Material misstatements of capital assets in the financial statements are not being detected and corrected.

RECOMMENDATION

2025-013 Improve internal controls by reinforcing capital asset procedures in the new ERP system and implementing monitoring procedures to detect and correct misstatements and omissions in reported capital assets.

Management's Views and Corrective Actions:

The new ERP system has improved internal controls over capital assets. A&C will update procedures in the new ERP system and reinforce them to ensure capital assets are accurately tracked and reported.

Anticipated Completion Date: Ongoing

Contact Person: *Xiomara Soto, Administrator Financial Management & Reporting
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Finding 2025-014

(significant deficiency - new finding)

CONTROLS OVER FINANCIAL REPORTING – EMPLOYEE BENEFIT FUNDS

Significant misstatements were identified and corrected in the Employment Security and Temporary Disability Insurance Funds.

Criteria: Management is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Condition: Significant misstatements were noted in the financial statements of the Employment Security and Temporary Disability Insurance Funds, requiring audit adjustments to correct.

Cause: Misstatements were caused by a misunderstanding of transactions accounted for in prior years that resulted in an incorrect adjustment being recorded in fiscal 2025. The Department of Labor and Training's review of transactions and year-end closing did not detect the misstatements. Certain agency reconciliations were not completed timely and reviewed in conjunction with the fiscal closing.

Effect: Material misstatements in fund financial statements are not being detected and corrected.

RECOMMENDATION

2025-014 Improve and formalize agency processes for reviews of journal entries and the fiscal year-end closing to ensure detection of material misstatements.

Management's Views and Corrective Actions:

The closing of fiscal year 2025 was an anomaly due to the abrupt change of accounting systems the State utilized for preparation of the financial statements. Most entries posted in the former accounting system, while final entries, including accruals, posted in the new accounting system. Management agrees that this

change led to confusion on the part of staff responsible for posting and reconciling fiscal year-end closing entries. The new system does facilitate improvement and formalization of reviews of journal entries to ensure appropriate detection of mis-postings and misstatements.

Anticipated Completion Date: On-going, however, we hope to have a better process in place for fiscal year close of 6/30/2026 and forward.

Contact Person: Denise Paquet, Administrator, Financial and Contract Management,
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Finding 2025-015

(significant deficiency - new finding)

ESTIMATING COMPENSATED ABSENCES LIABILITIES

The implementation of a new accounting standard relating to accounting for compensated absences did not fully meet the requirements of the new pronouncement.

Background: The State utilized a public accounting firm to provide recommendations regarding the implementation of GASB Statement No. 101, *Compensated Absences*, (GASB 101) which became effective in fiscal year 2025. The contracted firm provided specific considerations regarding the applicability of the new standard on different categories of compensated absences.

Criteria: Management is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles. Requirements of GASB 101, as stated, included but were not limited to the following requirements:

- 1) “That liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled”.
- 2) “Changes adopted at transition to conform to the provisions of this Statement should be reported as a change in accounting principle in accordance with Statement No. 100, *Accounting Changes and Error Corrections*, including the related display and disclosure requirements.” GASB 100 requires retroactive application in relation to a change in accounting principle by restating beginning net position.

Condition: The State’s implementation of GASB 101 resulted in two misstatements that required audit adjustments to ensure proper financial reporting in accordance with the new standard. The State understated the compensated absences liability amount relating to sick time earned by employees but not utilized at year-end. The accrued liability was limited to only time for employees that were eligible to be paid out for their sick leave upon retirement and did not consider accrued sick time expected to be used by employees (i.e. paid when discharged) in future periods. Additionally, the State did not restate beginning net position in conjunction with the implementation of GASB 101 as required by accounting standards.

Cause: The estimation methodology was not substantially modified by the State to account for the requirements for sick time in the compensated absences liability reported at year-end. The State did not comply with the accounting standard requirement to retroactively apply the accounting statement in the period of implementation.

Effect: Material misstatements in the financial statements due to noncompliance with the new accounting standard.

RECOMMENDATION

2025-015 Revise the compensated absences liability estimation methodology, specifically for employee sick time earned but not utilized at year-end to comply with the requirements of GASB 101.

Management's Views and Corrective Actions:

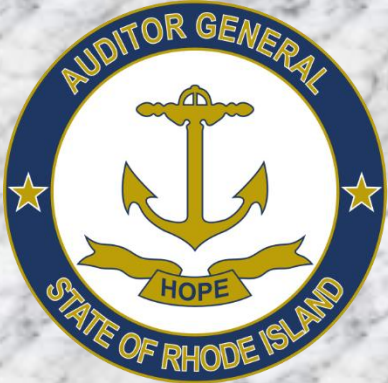
A&C agrees with the revision of the compensated absences liability estimation methodology to comply with GASB 101.

Anticipated Completion Date: Fiscal Year 2026

Contact Person: Martires Mullins, Administrator Financial Management & Reporting,
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**INTERNAL CONTROL OVER
FINANCIAL REPORTING**

**INTERMODAL SURFACE
TRANSPORTATION FUND**



Finding 2025-016**(significant deficiency – repeat finding – 2024-013)**DIVISION OF MOTOR VEHICLES – CONTROLS OVER REVENUE COLLECTIONS

Controls can be improved over the recording of license, registration, and surcharge fees collected by the Division of Motor Vehicles (DMV) and deposited in the Intermodal Surface Transportation (IST) Fund.

Background: In fiscal 2025, the DMV collected \$114 million in revenues (excluding sales tax) of which \$103 million was remitted to the IST Fund’s Highway Maintenance Account.

Criteria: DMV must have controls in place to ensure the completeness of revenue reflected within the IST Fund. RI General Law chapter 39-18.1 designates certain fees to be deposited in the IST Fund for transportation purposes.

Condition: DMV lacks procedures to provide reasonable assurance that the appropriate fees earmarked for the IST Fund have been received and recorded as revenue. This should include documentation of the fee structure identified by the RI General Laws, the surcharge amount being applied to each DMV transaction code, and how the DMV computer system, RIMS (Rhode Island Motor Vehicle System), is programmed to identify such amounts for the IST Fund. We identified the following control deficiencies:

- There is a partial, but incomplete, crosswalk of the fee structure identified by the RI General Laws for licenses, registrations, surcharges, etc. and how RIMS is programmed to identify such amounts.
- The current reconciliation between the State accounting system and RIMS does not include all fees collected by the DMV.
- Manual write-offs are not recorded in RIMS; they are maintained outside of the system. Manual write-offs should be recorded within RIMS to maintain a log of the adjustments and to facilitate reconciliation with the State accounting system.

To be an effective control over financial reporting, the reconciliation needs to be completed prior to the fiscal closing by the State.

Cause: Controls to ensure the completeness of the DMV revenues earmarked for transportation purposes within the IST Fund require improvement. DMV should consider ways that the RIMS system can be utilized to enhance monitoring of compliance with statutory revenue requirements and assist the agency in completely reconciling with the State accounting system.

Effect: Potential misstatements in the financial statements may not be detected in a timely manner.

RECOMMENDATIONS

2025-016a Ensure the timely completion of monthly and annual reconciliations between the State accounting system and RIMS to ensure that recorded revenue is supported by RIMS data.

2025-016b Complete the crosswalk linking the fees assessed in RIMS to the authorizing sections of the Rhode Island General Laws to ensure their accuracy.

Management’s Views and Corrective Actions:

2025-016a: The DMV agrees that a reconciliation of the revenues collected is needed and will work to reconcile the revenues collected on an annual basis, there are too many variables outside of the DMV’s control which prevent us from reconciling monthly. With the implementation of the new ERP system we cannot commit to completing the reconciliation prior to the fiscal close. We will work with Accounts & Control to include DMV specific deadlines in future year end close timelines so we can complete before the fiscal close.

2025-016b: The DMV agrees that a crosswalk is a beneficial document to have. The DMV is in the process of completing a crosswalk of fees charged in RIMS and the section of the Rhode Island General Laws.

Anticipated Completion Date: September 30, 2026

Contact Persons: 2025-016a : Paul Dombrowski, Assistant Director – Financial and Contract Management, Division of Motor Vehicles
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2025-016b: Roger Demers, Chief of Legal Services, Division of Motor Vehicles
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Maureen McDaniel, Chief of Strategic Planning, Monitoring, and Evaluation, Division of Motor Vehicles
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Finding 2025-017

(material weakness – repeat finding – 2024-014)

INTERMODAL SURFACE TRANSPORTATION FUND – FINANCIAL REPORTING

Control deficiencies continue to result in significant misstatements in the IST Fund financial statements. Internal controls must be improved to ensure consistent and accurate financial reporting.

Background: The IST Fund accounts for transportation-related activities of the State, including the federal highway construction program, transportation bond proceeds, and designated revenues collected by the Division of Motor Vehicles. The IST Fund financial statements, although generated by the State accounting system, are the responsibility of the RI Department of Transportation (RIDOT) and are significantly impacted by its internal Financial Management System (FMS).

Criteria: Controls over the preparation of financial statements should ensure consistent and accurate financial reporting. RIDOT management is responsible for establishing and maintaining effective controls over financial reporting.

Condition: Our audit identified a significant number of misstatements in the IST Fund financial statements that required adjustment. The misstatements impacted most financial statement categories and materially misstated the financial statements for the major fund. Individual line items were misstated by amounts ranging from \$3 million to \$75 million in the draft financial statements, requiring adjustments to correct significant misstatements due to:

- Omitted transactions and errors in estimate calculations;
- Classification errors resulting in inconsistent presentation under GAAP;
- Federal revenue and expenditures being recorded with no supporting documentation or requiring correction in relation to other misstatements; and
- Fund balance misclassifications caused by a lack of control procedures to detect and correct misalignments or reclassifications needed based on fund financial activity.

The quantity and magnitude of the misstatements were attributable to several internal control deficiencies relating to financial reporting. Account reconciliations are currently lacking to ensure accurate reporting of federal revenue and expenditures in the IST Fund. Audit adjustments were required and accepted by management to ensure that the financial statements were fairly stated in all material respects.

Cause: The current review process of the draft financial statements is not adequate to identify significant errors and misclassifications. Identified misstatements resulted from manual procedures designed to compensate for deficiencies in the accounting system. Examples include the allocation of fund balance and allocation of expenditures from the FMS. These manual processes can be prone to error and lack controls to ensure completeness. In addition, most of these accounting processes are performed by the more experienced accounting staff at RIDOT, reducing the likelihood

that independent reviews will be performed. Most of the exceptions noted may have been identified if RIDOT had been performing a more detailed review of account balances in conjunction with the fiscal close.

Effect: Account balances within the IST Fund financial statements could be materially misstated and go undetected.

RECOMMENDATIONS

- 2025-017a Ensure the transactions identified through the reconciliation of each activity and/or funding source within the IST Fund result in the appropriate categorization and reporting of revenue, expenditures, and fund balance components on the financial statements.

- 2025-017b Document and implement controls to ensure the accuracy of recorded amounts in the financial statements, including 1) account reconciliations, 2) complete reconciliations between the FMS and State accounting system, and 3) detailed review of financial statement accounts.

- 2025-017c Implement quality control processes to ensure proper classification and presentation of the financial statements.

Management’s Views and Corrective Actions:

2025-017a: The RIDOT General Ledger Team continues to strengthen internal controls throughout the fiscal year to support accurate IST Fund reporting in compliance with GASB standards and Generally Accepted Accounting Principles (GAAP). Continued coordination with the Rhode Island Department of Administration Office of Accounts and Control has improved fund balance reporting by ensuring all applicable accounts are properly identified and included.

2025-017b: RIDOT implemented improved controls, reports, and procedures to streamline reconciliations between FMS and RIFANS, and now Workday, allowing the General Ledger Team to identify and resolve issues more quickly and prevent future discrepancies. There were setbacks during the conversion process that mapped accounts incorrectly when switching over from RIFANS to Workday but have since been resolved.

2025-017c: RIDOT will continue improving fiscal close controls to ensure accurate classification, reporting, and reliability of the State’s financial statements.

Anticipated Completion Date: June 30, 2026

*Contact Persons: Loren Doyle, Director of Operations, Department of Transportation
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 Dawn Cruz, Chief Financial Officer, Department of Transportation
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Finding 2025-018

(material weakness – repeat finding – 2024-015)

TRANSPORTATION INFRASTRUCTURE REPORTING

Controls over the identification of transportation infrastructure assets need further improvement to ensure accuracy and completeness. Controls should be improved to record the disposal of infrastructure assets when retired, replaced, or permanently impaired.

Background: RIDOT enhanced its process to identify transportation infrastructure assets which use the FMS to identify each project and ensure that total project costs (e.g., design and construction costs) are included in the capitalized amounts. Since the source of the information used to identify capitalized infrastructure is FMS and the financial statements are based on the State accounting system (as recorded by the Office of Accounts and Control), the data used must be reconciled between the two systems.

Projects are assigned to one of nine infrastructure codes established to identify the type of asset (road, bridge, etc.) and the estimated useful life of the asset which drives depreciation expense.

Criteria: GAAP requires the State’s investment in infrastructure assets to be reported in the government-wide financial statements. Such amounts should be capitalized and depreciated, consistent with the State’s adopted accounting policies. Amounts are recorded as construction in progress until placed in service, at which time depreciation commences. Infrastructure disposals should be recorded when assets are replaced or permanently taken out of service.

GAAP also requires capital assets to be evaluated for impairment when events or changes in circumstances suggest that the service utility of a capital asset may have significantly and unexpectedly declined.

Condition: The cost and related accumulated depreciation associated with infrastructure assets that have been replaced or are no longer in service have not been removed from reported infrastructure amounts. The State asserts that these assets are fully depreciated, thus not resulting in a significant misstatement of reported net infrastructure, however, a process for removal to support that assertion by management needs to be implemented. A reasonable process to identify and record infrastructure disposals is also needed to ensure accurate note disclosure of infrastructure assets and related accumulated depreciation.

RIDOT utilizes its FMS to report the amount of infrastructure additions to the Office of Accounts and Control annually. The FMS does not reflect accrued expenditures, while the State accounting system includes accruals for financial reporting purposes. Significant adjustments were required to ensure the proper reporting of the State’s road and bridge infrastructure at June 30, 2025.

In conjunction with its review of asset disposals, RIDOT should consider whether it has transportation infrastructure assets that may be impaired and require proper accounting recognition in accordance with government accounting standards.

Cause: Controls over RIDOT’s identification and accounting of infrastructure assets are not sufficient to ensure complete and accurate financial reporting for capital assets.

A consistent process to evaluate and remove estimated costs relating to retired, replaced, or impaired infrastructure has not been implemented.

RIDOT does not review infrastructure assets reported in the State’s financial statements to ensure that balances are consistent with supporting documentation and the State accounting system.

Effect: Infrastructure assets and related depreciation expense may be materially misstated.

RECOMMENDATIONS

- 2025-018a Enhance controls by documenting and implementing procedures to reconcile RIDOT departmental records of construction in progress and infrastructure assets to amounts reported in the State’s financial statements.
- 2025-018b Implement and document a process to ensure the timely removal of estimated infrastructure assets and related accumulated depreciation when such assets are replaced or taken out of service.

Management’s Views and Corrective Actions:

2025-018a: RIDOT will continue to reconcile the infrastructure assets along with construction in progress through RIDOT’s Financial Management System (FMS) to match the State’s Financials.

2015-018b: In previous years, there were several attempts to develop a method to determine which assets were impaired. RIDOT's Financial Management Team and Bridge Maintenance Teams provided necessary information about which assets were to be impaired, replaced, and/or taken out of service. RIDOT will continue to work with Department of Administration's Office of Accounts and Control to determine the proper life cycle of these assets.

Anticipated Completion Date: June 30, 2026

Contact Persons: Loren Doyle, Director of Operations, Department of Transportation

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Dawn Cruz, Chief Financial Officer, Department of Transportation

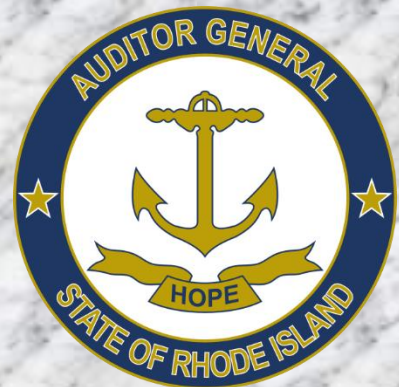
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**INTERNAL CONTROL OVER
FINANCIAL REPORTING**

**STATEWIDE INFORMATION
SYSTEMS SECURITY**

AUDIT STANDARD:

Auditing standards define the risk of the use of information technology (IT) as the susceptibility of information processing controls to ineffective design or operation, or risks to the integrity of information in the entity's information system, due to ineffective design or operation in the entity's IT processes.



Finding 2025-019**(significant deficiency – repeat finding – 2024-016)**COMPREHENSIVE INFORMATION SYSTEMS SECURITY – ADDITIONAL RESOURCES NEEDED TO ADDRESS CURRENT SECURITY RISKS

Additional resources are needed to mitigate the current risks that have been validated by both internal and contracted cybersecurity assessments. The State’s ability to assess, document, and mitigate risks will require continued implementation and maturation of many of the State’s current information technology (IT) security initiatives. Those initiatives will need additional resources to achieve and maintain their intended objectives.

Background: The Division of Enterprise Technology Strategy and Services (ETSS) within the Department of Administration (DOA) has responsibility for the State’s varied and complex information systems. This includes ensuring that appropriate security measures are operational over each system and the State’s information networks (the “enterprise”). Information security (InfoSec) is critical to ensure that IT dependent operations continue uninterrupted, and that sensitive data accumulated within State operations remain secure with appropriately controlled access.

The State has comprehensive policies and procedures promulgated by ETSS that collectively serve as controls over the State’s InfoSec. However, ETSS’s ability to update these policies and procedures in a timely manner and evaluate enterprise compliance continues to be lacking due to limited resources.

Periodic comprehensive technology risk assessments are key to uncovering underlying vulnerabilities in the environment, as well as providing guidance on where to best spend limited resources to reduce risk. The State’s most recent external assessment of its cybersecurity readiness was completed in June 2022. The assessment noted improvements by the State in several areas and identified and prioritized a significant number of critical improvements required to mitigate current security risks. In recent years, ETSS has performed its own self-assessment of cybersecurity and mapped certain enterprise risk levels. Critical and high priority improvements will require substantial resources to be devoted by the State to mitigate identified risks. The State also continues implementation of a governance, risk, and compliance (GRC) application as a tool to manage risks, ensure compliance with relevant regulations, and align operations with adopted IT security policies and procedures.

ETSS management has employed various applications in recent years to improve the State’s overall IT security and ability to identify and manage risks to the enterprise, however, staffing limitations and competing priorities have prevented these initiatives from reaching a level of maturity needed to achieve their intended objectives. The State’s implementation of a new ERP system, which became operational on July 1, 2025, further strained ETSS’s resources. ETSS management is working to formally document the State’s comprehensive information system security plan and continues to advance that plan annually.

During our audit, we focused on the following mission critical systems due to their impact on the State’s financial reporting: RIFANS (Accounting), Payroll, STAARS (Taxation), RIBridges (Health and Human Services), MMIS (Medicaid), RIMS (Motor Vehicles), and DLT benefit and revenue systems (Unemployment, Workers Compensation). We also reviewed the InfoSec over the State’s network environment, which is critical to the State’s operations and can negatively impact application security if not maintained at an acceptable industry-standard level.

Criteria: National Institute of Standards and Technology (NIST) SP 800-53, §RA-1, requires the development and documentation of IT risk assessment policies and procedures. Risk assessments should be performed on an ongoing basis or whenever there are significant changes (e.g., new system or network implementations) (NIST SP 800-53, §RA-3). Risk assessments are vital to managing and mitigating risks, maintaining compliance (e.g., IRS and HIPAA requirements), prioritizing IT spending, and supporting business continuity. The management and oversight of the State’s InfoSec relies upon the implementation of a comprehensive plan, which includes detailed policies and procedures that are designed to safeguard all systems and data contained within the State’s IT environment. Assessments of compliance with IT policies and procedures for all critical IT systems and data should be performed routinely as part of the risk assessment process.

Condition: Insufficient resources and competing priorities continue to challenge the State’s maturation of critical InfoSec functions. The review and update of related statewide policies and procedures remains untimely. Agency

compliance with ETSS policies and procedures and the identification and mitigation of risks remains lacking. The State has improved technology in recent years to identify and report on certain risks, however, the personnel resources needed to evaluate and mitigate them remain insufficient.

The State needs to formalize a strategic plan that identifies the InfoSec resources needed to advance the maturation of critical InfoSec functions to a level appropriate for the State’s size and complexity. An integrated GRC platform, while implemented to aid the State’s GRC function, needs to be significantly matured to provide the necessary technical support for the volume of InfoSec risks managed by a large entity.

External resources (contractors) have been employed to expedite implementation, support, and maintenance of critical InfoSec functions, such as firewall and networking services. ETSS’s advancement in recent years of InfoSec applications and other contractor initiatives, however, has outpaced the availability of the skilled personnel needed to operate, maintain, and monitor these new functions (e.g., applications, contractors, system reporting). In fiscal 2025, staff reassignments to support the ERP rollout, hiring limitations, and heavy reliance on contractors challenged operational stability and eroded the institutional knowledge needed to properly monitor contracted InfoSec functions.

Cause: Current resources are insufficient to maintain InfoSec over the State’s IT infrastructure, systems, and data. Personnel resources lacking in number and specific knowledge areas, along with competing priorities, have limited further maturation of many InfoSec initiatives implemented by the State. The rapid pace at which information technology evolves has challenged the State’s ability to align its current needs with the appropriate personnel and skills required to expedite InfoSec initiatives. This remains a challenge in the State’s classified personnel system due to outdated job classifications and rigid administrative processes that are not conducive to addressing the State’s evolving InfoSec needs.

Effect: Critical systems and data may be exposed to security vulnerabilities and cyberattacks when comprehensive information security risk assessments are not performed on an ongoing basis and identified risks are not mitigated timely. This could impact the State’s ability to ensure continued operation of mission critical systems and the security and integrity of the data within those systems.

RECOMMENDATIONS

- 2025-019a Establish and maintain a routine review cycle that keeps all InfoSec policies and procedures aligned with evolving frameworks, technologies, and major organizational changes.
- 2025-019b Identify and employ the resources necessary to mature the State’s GRC application to ensure that InfoSec risks are effectively tracked and managed throughout the enterprise.
- 2025-019c Conduct recurring third-party and internal risk assessments to maintain an accurate security baseline and produce prioritized remediation plans aligned with recognized standards.
- 2025-019d Identify and employ the resources necessary to ensure timely analysis, prioritization, and mitigation of threats and vulnerabilities, especially those affecting high-risk or mission-critical systems.

Management’s Views and Corrective Actions:

2025-019a: ETSS currently maintains a regular cycle to internally assess controls applied to enterprise systems and have completed the comprehensive System Security Plan (SSP). ETSS has also created a local policy approval group to reduce time to update and publish all enterprise policies. At time of comment, all current policies have been updated, submitted for ETSS policy group review, and are being prepared for signature and official publication. ETSS has also submitted new policies and standards to enhance both security and normal technology operations.

2025-019b: ETSS has recently completed an internal review across the full organization to understand and prioritize additional resources. ETSS has also worked diligently to get Legislative approved new and updated positions drafted current technology and resources needs. These positions were drafted as part of a larger effort to convert contractors into full-time employees to reduce reliance on external partners to support our

technology needs. Currently, ETSS Security has added a new Security Engineer and (3) positions have been created in the ERP system to post for further resources.

2025-019c: ETSS completed internal reviews, completed an external penetration test end of 2025, completed a compromise assessment in 2026, and an SSA audit assessing our enterprise controls. In 2026, ETSS will have its regular cycle full IRS controls audit completed and is planning to complete an external party control assessment dependent on funding availability.

2025-019d: ETSS Security has on board a Security Engineer to help maintain the platform for identifying vulnerabilities and have made reporting available to the technology support staff. ETSS as an organization have also launched a 'Get current, stay current' practice to reduce vulnerability patching cycles. The resources needed to support vulnerability management are part of the resource planning and hiring outlined in '2025-019b',

Anticipated Completion Dates: 2025-019a&b: 12/31/2026
2025-019c&d: Ongoing

Contact Person: Nathan Loura, CISO, Enterprise Strategy and Services (ETSS)
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Finding 2025-020

(significant deficiency – repeat finding – 2024-017)

PROGRAM CHANGE CONTROLS

The State’s enterprise-wide program change control procedures for the various IT applications operating within State government, while improved, have not adequately mitigated the risk that unauthorized program changes could be implemented without detection.

Background: Program change controls are critical to ensuring that only authorized, tested updates move into production, yet not all agencies across the State have adopted a consistent approach. ETSS continued to mature the Center of Excellence (CoE), inclusive of the Infrastructure Change Advisory Board (CAB) processes for reviewing network changes that consider the potential risks and impacts of the changes upon implementation, a process that aligns with NIST and ITIL best practices. In fiscal year 2025, the CoE launched the Applications CAB based on the Infrastructure CAB model to apply similar governance for all application-level changes. Application program management has nuances and greater complexity that must be addressed, thus development and implementation of the Applications CAB will take time to complete. At the end of fiscal year 2025, the Applications CAB was still in development.

Criteria: NIST SP 800-53, §CM-3, 7b, requires organizations to implement structured configuration change-control processes, including proposing, justifying, testing, reviewing, approving, and documenting system changes. ITIL 4 Governance & Projects, Change & Release controls provide complementary guidance and recommendations to ensure processes are supported by formal governance bodies such as Change Advisory Boards to ensure changes are authorized and appropriately managed.

Condition: The State’s formalization of policies and procedures for program change controls continued to mature with related initiatives in the development and implementation phases. While it could be some time before the Applications CAB is implemented and effectively applied across the enterprise based on current resources, program change-controls rely on agency level procedures which are often found to be lacking or undocumented. Many agencies with contracted applications rely heavily on the contractor to ensure proper program change controls, however, the monitoring and review of those controls at the agency level are often lacking.

Cause: A standardized, NIST-aligned application change management framework has not been fully developed and adopted across agencies. Many agencies continue to rely on manual or semi-manual processes, such as emails, memoranda, and forms to document and approve application changes, and lack adequate controls to prevent unauthorized or inappropriate changes. With limited resources dedicated to support an enterprise-wide program change control process, more automated tools to improve consistency, reduce errors, and strengthen system integrity should be considered.

Effect: Unauthorized, untested, or improperly approved program changes may be implemented, increasing the risk of system instability, compromised data integrity, and noncompliance with NIST SP 800-53 change-control management requirements.

RECOMMENDATION

2025-020 The State should consider the resources needed to fully implement a standardized, NIST-aligned change management framework across all agencies in a timely manner. This should include mandatory use of automated change control tools, consistent participation in CoE/CAB governance processes, and auditable documentation of all proposed, tested, and approved changes.

Management’s Views and Corrective Actions:

ETSS Project and Portfolio Management Office (PMO) has dedicated a (2) person team to enhancement of the Change Board and further maturity of the Community of Practice (CoP) in which the CoEs noted operate. This team has overhauled the CAB board meetings, the types of changes authorized, and further centralized the process. The ETSS Chief Digital Officer (CDO) has also hired a new role of Chief Technology Officer (CTO) who has been tasked with unifying the actions of the CoEs into a soon-to-be published reference technology architecture for all colleagues follow further standardizing changes and making design of solutions more efficient.

Anticipated Completion Date: Ongoing

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Finding 2025-021

(significant deficiency – repeat finding – 2024-018)

PERIODIC SYSTEM ACCESS AND PRIVILEGE REVIEWS

The State’s current practices for periodic logical access and privilege reviews at both the application and network levels do not fully comply with the State’s InfoSec policies and procedures.

Background: Within the Department of Administration (DOA), ETSS manages the State’s complex information systems and ensures proper user account administration. This includes elevated and shared resource accounts, which require heightened oversight to maintain segregation of duties and preserve accountability. Strong access rights governance is essential to managing security, operational, and compliance risks. Routine review, and recertification of user, vendor, and contractor access help ensure appropriate system privileges are retained by individuals within their respective systems. Validating identities, assessing access levels, and monitoring privileged activity support a reliable internal control environment.

In fiscal year 2025, enhancements to Privileged Access Management (PAM) and Endpoint Privilege Management (EPM) solutions advanced slowly. PAM provides centralized oversight of privileged accounts, while EPM enforces least-privilege principles at the device level. Together, these tools are intended to improve and support more consistent IT control operations. Privileged accounts that can bypass standard controls and affect system integrity require heightened oversight. These accounts benefit from a properly configured PAM environment. Until these measures are consistently in place, continuous monitoring and rigorous review is required to avoid an increased risk of unauthorized access, misuse, and security incidents.

ETSS also recently completed a new data classification policy and initial automated workflows to serve as a foundation for sensitive data categorization and role-based access controls (RBAC) moving forward.

Criteria: ETSS Policy 10-10, *Access Control*, and Policy 10-20, *Identification and Authentication*, consistent with control standards promulgated in NIST SP 800-53, detail specific State policies for the implementation and management of logical and physical access controls and for identifying and authenticating user access to information systems and network resources. These policies, amongst several requirements, include maintaining accurate security-

group documentation, enforcing RBAC, and periodic reassessment of privileges to ensure they remain appropriate and that access to sensitive data is limited to those with a business need.

Condition: While the State has improved overall logical and physical access controls, specifically in identifying and authenticating user access to information systems and network resources, routine assessments of compliance with IT policies, procedures, and data classification controls need further advancement to ensure compliance with the State’s InfoSec policies and procedures. ETSS made limited progress strengthening access controls, PAM, and EPM improvements during fiscal year 2025. The State lacks consistent, uniform reviews of directory service access privileges and oversight of generic, service, and privileged accounts remain insufficient. Growing generic account utilization, inadequate credential rotation, and inconsistent deactivations remain concerns. Agencies also inconsistently use the ticketing system for access changes. Lack of a modern passwordless user account management environment further hinders progress on account security program modernization.

Cause: Due to competing priorities and ongoing resource constraints, the State remains challenged to provide sufficient training, automation, and formalized processes to consistently track, monitor, and manage system and privileged access. ETSS has also been unable to complete a comprehensive Active Directory (directory service for Windows domain networks) review as required by State policy.

Effect: The lack of consistent access reviews and other areas of noncompliance with State policy collectively increase the State’s exposure to unauthorized activity, data manipulation, and security incidents. These conditions also undermine least-privilege principles, impact accountability, and result in noncompliance with established security policies and governance requirements, elevating overall organizational risk.

RECOMMENDATIONS

- 2025-021a Ensure account management practices comply with relevant security frameworks, organizational policies, and regulatory requirements to maintain strong governance and prevent unauthorized access.
- 2025-021b Deploy and enhance PAM and credential-vaulting capabilities for all generic, shared, and elevated accounts, expanding automation and reducing manual processes. Consider replacing passwords with stronger, biometric-based, or endpoint token-based authentication methods to improve security controls.
- 2025-021c Require all access-related modifications to follow a formal change management process with complete documentation, while reinforcing adherence to established standards through training, quality checks, and periodic compliance reviews.
- 2025-021d Conduct privileged access reviews, ensuring designated personnel validate access rights in accordance with ETSS policy and security best practices.
- 2025-021e Perform a comprehensive cleanup of the Active Directory environment to remove dormant, duplicate, or unnecessary accounts.

Management’s Views and Corrective Actions:

2025-021a: ETSS Security has brought on a contractor resource to operate as the IAM engineer and have invested into new solutions with Microsoft Defender and Proofpoint specifically focused on account compromise and takeover. ETSS has also recently invested in a product, Adaxes, to allow for further enhancement and automation of ETSS managed identities. Finally, ETSS CISO has updated and refreshed all access policies and has created new standards for on-boarding/off-boarding accounts and account monitoring to provide the guidance to consistently apply object configurations within the agency support teams. ETSS Security also works closely with the HR ERP teams to ensure that these updates are worked into the user identity life cycle at eh beginning when a user is on-boarded to State service.

2025-021b: ETSS has deployed updates to its current PAM solution as well as updating in solutions that support identity management outlined in ‘021a’. ETSS plans to support biometric or endpoint-based tokens that do not conflict with out federal regulatory obligations and dependent on funding availability for hardware investment (use of solutions like ‘windows hello’ require new laptops/desktops with certain compatible modules and webcams).

2025-021c: ETSS has in addition to the efforts outlined in '021a' ETSS Security have also created dashboards cover many aspects of the identity lifecycle to monitor for deviations across many aspects of the identity domain. This effort is completed to support the Zero Trust Architecture CoE and provide the foundational data needed to complete enterprise reviews of all accounts across the State.

2025-021d: ETSS Efforts additional to the work in '021a and c' ETSS Security teams have begun engaging teams to reconcile all service, machine, and privileged accounts in this initial user entitlement review (UER) phase then branching out to non-privileged standard users.

2025-021e: ETSS security efforts in '021d' allow the identification of any deviations from our ETSS Standards and being corrected as identified in the UERs going forward.

Anticipated Completion Dates: 2025-021a: 12/31/2026
2025-021b,c,d&e: Ongoing

Contact Person: Nathan Loura, CISO, Enterprise Strategy and Services (ETSS)
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Finding 2025-022

(significant deficiency – repeat finding – 2024-019)

DATABASE LOGGING AND ACTIVITY MONITORING

The State’s current practices for database logging and activity monitoring at the database level need improvement.

Background: Database logging and activity monitoring is an essential component to maintaining proper security and control over systems. Having an effective mechanism for monitoring and remediating accidental changes or intentional insider threat actions is imperative. ETSS continued the implementation of a solution used for database activity logging and monitoring, including efforts to integrate those applications with the State’s developing security information event monitoring (SIEM) processes during fiscal 2025.

Criteria: Proper database logging, monitoring, and alerting is identified as an important step in securing the database by both the Information Systems Audit and Control Association (ISACA) and other IT security frameworks as an industry best practice. It is essential to have logging and monitoring at the application level for key financial and sensitive data to guard against unauthorized transactions, errors, and unauthorized changes occurring at the database level outside of the scope of application controls.

Condition: Database logging and monitoring for most SQL server environments continued to be deployed in fiscal 2025 but its integration in the State’s SIEM process needs significant maturation to provide effective monitoring. In addition, several State applications utilize older database technology that is not compatible with the solution being implemented by the State. Database logging and monitoring on these applications remain insufficient or ineffective due to the manually intensive processes involved or a lack of resources or procedures to review logs and alerts for unauthorized activity. Although these instances continue to reduce over time as new systems and applications are implemented, they still represented a number of key applications in fiscal 2025. While the State continued to progress in this area, consistent application of controls and additional resources are still needed. Interfacing the current solution with the State’s SIEM application is the effective longer-term solution that will allow for proper actionable and centralized monitoring of database activity across the enterprise.

Cause: The State’s implementation of database logging and monitoring progressed in fiscal 2025 but lacked integration with the State’s SIEM process to allow for effective monitoring. In addition, State applications that utilize older database technology are incompatible with the State’s deployed solution and lack controls to effectively identify unauthorized database activity.

Effect: The lack of database logging and monitoring for improper activity makes it more likely that key databases will be vulnerable to malicious attacks without detection. Risk to data integrity may result from unauthorized database changes that go undetected.

RECOMMENDATIONS

- 2025-022a Complete implementation of a consistent and effective database logging and monitoring process across all compatible State applications by effectively interfacing the technology solutions with the State’s maturing SIEM processes.
- 2025-022b For applications with incompatible database technologies, communicate policies and procedures for database logging and monitoring to assigned agency IT managers and require those agencies to adopt controls for critical financial and operational systems that would effectively identify unauthorized database changes in a timely manner.

Management’s Views and Corrective Actions:

2025-022a: ETSS has recently upgraded to a new cloud hosted enterprise grade SIEM and has implemented logging from our database monitoring solution. ETSS has also further matured out data and analytics team with resources to address database design and issues under the appointed Chief Data and AI Officer (CDAO).

2025-022b: ETSS has created a policy group to help drive updates to policy, as well as draft new policy to further mature in all aspects of the enterprise. The ETSS Data and Analytics team have also drafted a data classification policy that outlines controls needed based on impact of data loss/breach.

Anticipated Completion Dates: 2025-022a: 12/31/2026
2025-022b: Ongoing

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Finding 2025-023 (significant deficiency – repeat finding – 2024-020)

SECURITY INFORMATION EVENT MONITORING – LACK OF ITIL BEST PRACTICE PROCEDURES

The State’s security information event monitoring (SIEM) function lacks the maturity, staffing, and technological resources required to support an enterprise of its size. Current SIEM activity exceeds available capacity, hindering timely analysis and remediation.

Background: The State relies on multiple products for SIEM and risk mitigation. However, these tools are not consistently integrated with the State’s ticketing or knowledge-based systems. The legacy SIEM platform operates on hardware that cannot communicate with the established ticketing system, resulting in decentralized, inconsistent, and non-searchable incident documentation. This lack of centralized tracking is contrary to Information Technology Infrastructure Library (ITIL) framework best practices and limits the State’s ability to maintain institutional knowledge or ensure consistent remediation. Security orchestration, automation, and response (SOAR) workflows are important tools for larger entities that assist the management and remediation of security risks identified through automated responses. The State’s current SOAR capabilities are limited.

Criteria: SIEM integration with ticketing systems is generally considered a best practice that supports centralized incident tracking and coordinated response. NIST SP 800-37 outlines continuous monitoring practices applicable to SIEM operations. Additionally, ITIL best practices recommend maintaining a centralized knowledge base for incident documentation to support consistent remediation and organizational learning.

Condition: ETSS has begun implementing a new SIEM/SOAR solution, but it remains in early configuration stages and is not expected to be deployed until the end of fiscal year 2026. The legacy SIEM contract has already been terminated, accelerating the need for migration despite limited resources. Current SIEM activity exceeds available capacity, hindering timely analysis and remediation, and SOAR playbooks remain largely undeveloped. The legacy

platform no longer meets operational needs, and while a new cloud-based SIEM/SOAR system is being configured, it remains an ambitious timeline for such a complex implementation. This critical InfoSec function will need additional resources to ensure timely implementation and maturity. The lack of centralized documentation and automated response capabilities limits the State's ability to track trends, ensure consistent remediation, and maintain institutional knowledge. Delays in fully implementing the new SIEM/SOAR solution prolong the period during which the State remains vulnerable to future security incidents.

Cause: The State's SIEM function lacks the maturity, staffing, and technological resources required to support an enterprise of its size. Legacy systems with limited integration capabilities, insufficient personnel, and the loss of key technical staff have hindered the development and deployment of a fully functional SIEM/SOAR environment.

Effect: Security events and threats detected may not be acted upon in a timely manner, increasing the risk of unmitigated vulnerabilities and potential security incidents.

RECOMMENDATIONS

- 2025-023a Prioritize the SIEM/SOAR migration and add resources including experienced cybersecurity architects to maintain momentum and reduce risk.

- 2025-023b Establish strong oversight to ensure timely delivery and provide staff training to fully leverage the new platform.

Management's Views and Corrective Actions:

2025-023a: ETSS has expanded staff as outlined in '2025-19, 20, and 22'. ETSS Security has also dedicated a project management team to help track the complex efforts to tune and baseline the recently upgraded new cloud hosted enterprise grade SIEM. These activities are completed by a multi-discipline team comprised to the ETSS Security team members, ETSS technology support teams, ETSS PMO, and external support with Microsoft fast-track, our external security contractor parties, and an external implementation vendor.

2025-023b: ETSS has created a training path to upskill our current team members. ETSS Security have also worked to further centralize SOC services to provide better oversight and will on board a managed security services partner (funding dependent).

Anticipated Completion Dates: 2025-023a: 12/31/2026
2025-023b: Ongoing

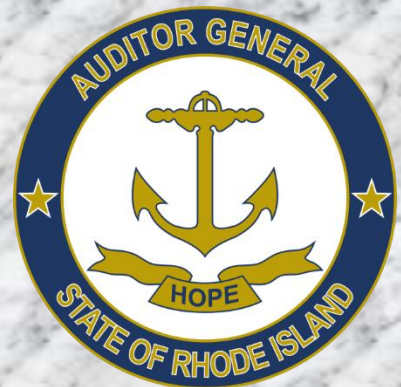
Contact Person: Nathan Loura, CISO, Enterprise Strategy and Services (ETSS)
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**INTERNAL CONTROL OVER
FINANCIAL REPORTING**

**OTHER FUND
SPECIFIC FINDINGS**

*Rhode Island State Employees' and
Electing Teachers OPEB System*

*Employees' Retirement System
of Rhode Island*



Finding 2025-024**(significant deficiency – repeat finding – 2024-022)**RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM – ASSESS THE RESOURCES AND SYSTEMS NECESSARY TO EFFECTIVELY ADMINISTER THE OPEB SYSTEM

The State has not implemented administrative processes and computer applications to effectively support the overall administration of the OPEB System. Current functions including 1) accumulating plan census data, 2) managing member eligibility, 3) determining member copays, and 4) plan enrollment functions are supported through decentralized processes that do not adequately support plan administration.

Background: The Rhode Island State Employees' and Electing Teachers OPEB System (the System), acts as a common investment and administrative agent for post-employment health care benefits provided by six plans covering state employees and certain employees of the Board of Education (BOE). In fiscal 2025, required employer and employee contributions to OPEB plans approximated \$46 million, with \$34 million in retiree benefits paid. OPEB assets totaled \$765 million at June 30, 2025.

When the State began to advance fund its retiree health benefits, OPEB trusts were established for each of the plans and a formalized governance structure was established by statute; however, no dedicated personnel were specifically tasked with administering the System and no administrative systems were implemented at that time, or subsequently, to capture and control membership data for the various OPEB plans. Instead, membership data, the determination of eligibility for benefits and any required retiree copays are administered through a variety of processes which largely lack the controls needed to administer plans of this size and complexity.

The System's functions are managed across various units within State government. The Department of Administration's Office of Employee Benefits (OEB) currently determines eligibility and manages member benefits for the State Employees, Teachers, Judges, State Police and Legislator plans. The Human Resources Department at the University of Rhode Island separately determines eligibility, calculates benefits, and manages member subsidy receivables for the BOE plan. The Office of Accounts and Control handles the accounting and financial reporting aspects of the System and coordinates the actuarial valuations. The Office of the General Treasurer oversees the investment activity of the System.

The State currently manages OPEB enrollment by ensuring that all pre-65 retirees are registered in the State's Workterra software platform, which the State also utilizes to administer active employee benefits. This improvement provides systemic reporting of pre-65 enrollees and assists in ensuring their timely transition to Medicare and post-65 OPEB benefits. State employees (except for State Police, judges, legislators, and certain employees of the colleges and university), once enrolled in Medicare, are enrolled in Via Benefits which establishes a health reimbursement arrangement (HRA) for the retiree. The State funds a predetermined amount for the retiree who can utilize the funds to pay health claims or purchase Medicare supplemental or Advantage health insurance coverage. The State, however, lacks a complete system that it considers to be the official record of System enrollment.

Census data for each plan is provided to the System's actuary to prepare required actuarial valuations of the plans. Each plan has unique benefit eligibility and healthcare coverage provisions.

Criteria: As the System grows and matures, the administrative infrastructure supporting the System should be assessed to ensure adequate resources and systems with appropriate controls are in place to manage the System effectively.

Maintaining membership data and determining the eligibility for benefits and required copays should be managed through systems and processes with adequate controls to ensure that membership data is reliable, benefits are accurately and consistently determined in accordance with plan provisions, and census data is maintained to facilitate extraction for actuarial valuations. Duties should be appropriately segregated to ensure that no one individual is responsible for determining eligibility and required copays, enrolling the individual for coverage, collecting and accounting for copay amounts, and maintaining plan census data.

Condition: We identified the following control deficiencies over the various disjointed processes used to administer the OPEB plans:

- Insufficient resources have been allocated and centralized to administer the System effectively. Knowledge of key System benefit provisions, administrative operations and operating procedures are dispersed amongst too many separate units of State government without effective coordination.

- The accumulation of census data provided to the actuary for plan valuation purposes is derived from multiple sources and requires analysis of other external source data to establish the active and retiree plan members for each plan. Controls are inadequate to prevent duplicate or inaccurate census data from being provided to the actuary. The State lacks a documented comprehensive reconciliation of all System members and retirees that ensures completeness and accuracy of reported census data to the State’s actuary. The most notable concerns regarding the completeness and accuracy of census data to the actuary included 1) certain individuals included in the census data not reported in the records of the third party administrator/insurer, 2) individuals noted in the records of the third-party administrator/insurer not included in the census data, and 3) inaccurate health coverage information (type of health insurance plan, most notably with Medicare Advantage and supplemental coverages) reported for retirees.
- Inadequate segregation of duties exists between eligibility determinations, benefit calculations, copay receivable billings and collections, healthcare plan enrollment, and maintenance of the plan census information.
- Periodic reconciliations between the plans’ records and healthcare providers enrollment data are not documented.
- Procedures for identifying and terminating coverage for deceased members, spouses and dependents are inconsistent and can be improved. Our audit procedures continued to note that the census data provided to the actuary continued to include deceased retirees.
- Documentation and monitoring of user entity controls relating to functions contracted to service organizations (health insurance provider - Blue Cross / CVS Caremark, health benefits administration system - Workterra, HRA administrator - VIA Benefits) are lacking.
- Monitoring and analysis of OPEB liabilities reported for retirees over age 65 requires determining an estimate of the percentage of HRA commitment that is ultimately utilized by retirees over the course of their retirement to prevent overstatement of the liability amount accrued annually.
- Oversight of the accounting for the OPEB System needs improvement. The 2025 OPEB system financials included an accrual of the first HRA funding for 2026 and improperly classified retiree co-shares in the BOE plan as member contributions, inconsistent with its treatment in the other plans. While incorrect, these accounting misstatements did not have a material impact on the System’s financial statements.

During fiscal 2025, the OPEB Board created a working group to study the issues cited in this finding to identify corrective actions. In conjunction with those efforts, we recommend that the working group formalize the internal controls over key plan functions. The working group should include the controls over the BOE plan employees at the colleges and university as the contribution and benefit provisions for the BOE plan differ significantly and many of the inconsistencies relating to census data and plan oversight relate specifically to that plan.

Cause: The State and System have not implemented administrative processes and computer applications to effectively support the overall administration of the OPEB System, including 1) accumulating plan census data, 2) managing member eligibility, 3) determining and monitoring member copays, and 4) plan enrollment functions. Existing processes in place to support healthcare plan enrollment for active employees have generally been adopted to support the OPEB System but lack certain functions and controls that are unique to and requisite for the administration of the OPEB System.

Effect: Inadequate controls over key plan administrative functions could impact the reliability of amounts (e.g., member copays and member benefits) reported on the System’s financial statements as well as the accuracy of census data used by the actuary to determine each plan’s annual contribution amount and the net OPEB liability or asset for each plan.

RECOMMENDATIONS

- | | |
|-----------|---|
| 2025-024a | Assess the resources necessary to effectively manage and administer the OPEB System to ensure all System functions are met and adequately controlled. |
|-----------|---|

Criteria: Management is responsible for the accuracy of the System's financial reporting and related internal control over financial reporting. The System should have sufficient information to support effective compliance monitoring of statutory and plan requirements in addition to the plan administrator's reporting that is the source for financial reporting of the DC plan.

Condition: The System does not receive information on the employer remittances of employer and employee contributions to the DC plan and therefore has limited information to ensure employer compliance with the DC plan provisions. System management currently places significant reliance on employer financial audits to identify if employers are not complying with statutory requirements for contributions to DC plans in place of more active monitoring.

During fiscal 2025, the System conducted a risk assessment over defined contribution plan financial reporting in response to the prior year finding. The System's initial assessment documented broad risks relating to financial reporting, information technology, and plan membership and identified current policies and procedures conducted by the System or other data sources being relied on. The assessment, however, lacked the identification of specific risks associated with financial reporting for the defined contribution plan and the designated controls that mitigate significant risks. In addition, the System relies significantly on the controls of the plan administrator and receives Service Organization Control (SOC) reports to obtain assurance regarding the adequacy and effectiveness of the plan administrator's internal controls. Since the System places significant reliance on these reports in relation to defined contribution plan financial reporting, the risk assessment should identify specifically the plan administrator's key controls that are relied on to mitigate financial reporting risks identified. As an example, the System relies completely on plan reporting from the plan administrator for financial reporting for the defined contribution plan, yet the risk assessment does not delineate the key plan administrator controls that ensure the reporting is complete and accurate.

Due to the significance of financial activity (i.e., contributions, distributions, investment activity and valuation) reported by the plan administrator, these items should be specifically considered in the risk assessment for defined contribution plan financial reporting. In addition to identifying the plan administrator's key controls in these areas that are included in the scope of the SOC reports, the System should also identify specific monitoring controls designed to ensure the completeness and accuracy of information reported by the plan administrator.

While the System does review the SOC reports for the plan administrator and identifies user entity controls, the System considers many of the user entity controls to be the responsibility of the participating employers and does not currently have procedures in place to evaluate how effectively employers comply with those responsibilities.

As a step to begin addressing this control deficiency during 2025, the System began performing quarterly reviews of total contributions for each unit to ensure the allocation between employer contributions and employee contributions was reasonable when compared to statutorily required contributions. This monitoring control was deemed effective to provide reasonable assurance that employee contribution allocations to the defined contribution plan were materially accurate and presented properly in the financial statements.

The System will need to more fully consider remaining risks associated with financial reporting for the defined contribution plan to ensure the material completeness and accuracy of financial statement amounts. Certain risks currently not being addressed by the System, beyond relying on the controls of the plan administrator, include but are not limited to the following:

- Risks that employers are not remitting contributions to the defined contribution plan in a timely manner. The risk assessment provided by the System indicated that it relies on employer unit financial audits to detect if employers are not making required DC contributions timely but did not identify any monitoring performed by the System. Since the plan administrator communicates with plan sponsors when contributions are not received in accordance with payroll schedules, the System should consider a documented monitoring process that ensures that corrective actions were taken by the employer unit and that the employer remained current with contributions in subsequent periods.
- Risks that employers are not remitting the statutorily required contribution amounts to the plan administrator. While the System has access to contribution data via the plan administrator portal, it does not currently perform any monitoring to validate that employers are remitting the appropriate amount of contributions

based on employee pensionable wages each pay period. The System should consider utilizing the contribution data available in the plan administrator portal in combination with the reported pensionable wages uploaded by employers to the defined benefit plan system to monitor for potential instances of noncompliance with statutorily required contribution amounts.

- Risks that new employees are not enrolled in the defined contribution plan timely and properly. The System does not evaluate enrollment in the DC plan for completeness. The System should periodically reconcile the population of the defined benefit pension plan with those enrolled in the DC plan and confirm the appropriateness of those omitted from the DC plan or included only in the DC plan.
- Risk that assets reported by the plan administrator which are utilized for financial reporting of the DC plan are not complete and accurate. In response to this risk, the System should consider periodic (at least monthly) analytical reviews of investment growth and performance, contributions to and distributions from the plan and fees paid. The analytical reviews should include documentation of follow-up and resolution when actual results differ from expectations.

The System is highly reliant on plan administrator controls to mitigate certain risks, including those associated with the accuracy of plan reporting and participant distributions. In accordance with that reliance, the System must ensure that significant complementary user entity controls are in place and operating effectively in those areas. Our review of the plan administrator SOC reports noted the following user entity controls, as examples, deemed significant in relation to plan reporting, asset valuation and pricing, and participant distributions:

- Plan sponsors are responsible for reconciling plan reports to internal records in a timely manner.
- Plan sponsors are required to provide employee termination data in a timely manner.
- Plan sponsors are responsible for monitoring the plan's withdrawal programs in accordance with adopted plan guidelines.

The System must implement specific monitoring procedures that provide reasonable assurance of the operation and effectiveness of significant plan sponsor controls. In addition, since the plan administrator relies heavily on a third-party subservice organization for trading activities, the System needs to obtain and consider the SOC report for that subservice organization and potential monitoring of the plan administrator's relevant user entity controls deemed critical to the trading service provided.

Many of the monitoring procedures identified above would be better suited to an internal audit function within the System rather than layering these additional duties on the existing financial reporting and operations staff. While not implemented in fiscal 2025, the System has been developing a request for proposal to contract some internal audit resources. The System also continues to work with the plan administrator to implement an industry standard SPARK data file format, a standardized format for retirement plan information developed by the SPARK (Society of Professional Asset Managers and Recordkeepers) Institute. The SPARK data file format would allow the System to utilize reports generated by the plan administrator to more effectively monitor contributions submitted by employers.

As the System considers implementing additional monitoring procedures in relation to identified risks to DC plan financial reporting, the System should specifically detail the documentation requirements for monitoring procedures being implemented in response to this finding to allow for those procedures to be evaluated as controls over financial reporting.

Cause: At the inception of the DC plan, the plan design, enacted by legislation, provided for employer and employee contribution data to flow directly from the employer to the plan administrator without any data capture by the System. The System lacks sufficient accounting and contribution data to monitor compliance (through effective control processes) with contribution requirements and to ensure the completeness and accuracy of plan administrator reporting that is the sole basis for amounts reported in the DC plan financial statements. System reliance on plan administrator SOC reports lacks the necessary monitoring of complementary user entity controls to ensure their operating effectiveness in conjunction with plan administrator controls over critical functions.

Effect: Material misstatements could exist in the financial statements of the DC plan and not be identified in a timely manner.

RECOMMENDATIONS

- 2025-025a Continue to identify and implement monitoring procedures (similar to those suggested for risks detailed above) designed to ensure the completeness and accuracy of plan administrator reporting that supports amounts reported in the financial statements.
- 2025-025b Continue to explore expanding the responsibilities of the plan administrator (or other third party) to include capturing, verifying and validating employee and employer contribution data to enhance monitoring of employer compliance with the plan provisions.
- 2025-025c Enhance consideration of SOC reports that specifically relate to DC plan reporting by identifying key control objectives being relied on by the System and the specific complementary user entity controls and/or subservice organization controls that merit monitoring by the System due to their importance.

Management's Views and Corrective Actions:

As previously reported, the Defined Contribution Plan continued its relationship with TIAA following an RFP in 2023. The revised contract included enhanced requirements for monitoring contribution processing and strengthening internal controls. ERSRI has implemented significant improvements in oversight and process documentation, and these efforts remain ongoing.

The System believes that implementation of an industry-standard SPARK file layout will increase transparency and internal controls. ERSRI is actively working with the plan administrator, TIAA, to implement the SPARK file format for employers with the goal of establishing a formalized monitoring plan for the Defined Contribution component of the retirement benefit during this fiscal year. This finalized plan and related controls will be documented upon completion.

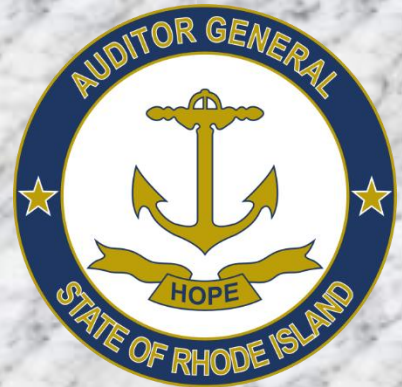
ERSRI maintains robust internal controls and reporting systems for wage and contribution management of the Defined Benefit Plan, and financial reporting for that plan has consistently met the highest standards. As noted by the Office of the Auditor General, the State of Rhode Island has utilized an external plan administrator for the Defined Contribution portion of the hybrid plan since its inception. Accordingly, ERSRI considers it appropriate to maintain distinct, but equally rigorous, control and reporting frameworks for the Defined Contribution and Defined Benefit plans.

Management further notes that the State Investment Commission and the investment division of the Office of the General Treasurer provide rigorous and comprehensive oversight of plan assets. Moreover, ERSRI is not reliant on the plan administrator to fully self-report, but contracts with a third-party consultant, Capital Cities, to monitor all participant-directed programs, including the Defined Contribution Plan. Capital Cities conducts ongoing analytical review of fund performance, and issues quarterly evaluation reports, which are then reviewed closely by Treasury Investment Staff. In addition, Capital Cities presents an annual 401(a) Program Review to the State Investment Commission. Oversight has been further strengthened through the addition of an Investment Associate dedicated to liquid asset classes, including the 401(a) investments.

Anticipated Completion Date: Ongoing

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**DISCRETELY PRESENTED
COMPONENT UNITS**



Finding 2025-026**(Reportable Noncompliance – repeat finding – 2024-024)**RHODE ISLAND CONVENTION CENTER AUTHORITY – RESTRICTIVE COVENANTS

Criteria: Bond indentures require that the Rhode Island Convention Center Authority (Authority) fund the Operating Reserve requirement of the restrictive covenants for the Rhode Island Convention Center (RICC) and the Amica Mutual Pavilion (AMP).

Condition: During the year ended June 30, 2025, the Authority was unable to fund the Operating Reserve requirement of the restrictive covenants for the RICC and the AMP pursuant to the indentures. The Authority is currently in violation of certain debt indentures with respect to the Operating Reserve requirement.

Cause: The Authority does not have sufficient cash flow to fund the Operating Reserve.

Effect: As a result of this fund not being funded, the Authority is in noncompliance with certain bond indentures.

RECOMMENDATION

2025-026 The auditors recommended that the Authority fund the Operating Reserve.

Management's Views and Corrective Actions:

The Authority will fund the Operating Reserve provided there is sufficient cash flow or if an alternative means of security, such as a letter of credit, is available.

Given that the Authority continues to make timely and complete debt service payments, it would make little sense for the trustee to declare a default for reserve fund noncompliance. In fact, this has been the practical practice over several years as the Authority has failed to maintain adequate reserves due to insufficient State appropriations. If a default was declared, the Authority would have 90 days to cure and would seek a legislative appropriation to remedy the default. Of course, annual appropriations in excess of debt service requirements would assist in building reserves and reaching the requirements. The Authority and its advisors are actively in search of a viable resolution to this matter.

Anticipated Completion Date: Undetermined

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Finding 2025-027**(significant deficiency – repeat finding – 2024-025)**RHODE ISLAND PUBLIC TRANSIT AUTHORITY – FARE REVENUES

Criteria: The Rhode Island Public Transit Authority should reconcile the daily farebox report and GFI Software daily summary report, as well as deposits to the related documentation.

Condition: During our current year testing of fare revenue policies and procedures, we noted all the days selected had variances between the daily farebox report and GFI daily summary report.

Cause: The Authority's farebox technology sensors report fares using weight which results in variances between the GFI report and the cash collected. This leads to variances between the amounts reported and amounts deposited to the bank.

Effect: Daily reconciliations of cash received in comparison to the farebox reports are consistently showing variances which, if not corrected going forward, could result in material variances.

RECOMMENDATION

2025-027 The auditors recommended that the Authority enhance the farebox technology to correct this process going forward.

Management’s Views and Corrective Actions:

The variance is related to challenges with the existing technology used for cash collection. This system has exceeded its useful life and the Authority is actively exploring alternate options for cash collection and vaulting. More accurate information is one of the key objectives of this effort.

Anticipated Completion Date: Ongoing

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Finding 2025-028 **(material weakness – repeat finding – 2024-028)**

QUONSET DEVELOPMENT CORPORATION – TIMELINESS AND ACCURACY OF FINANCIAL REPORTING

Criteria: The Quonset Development Corporation should be completing monthly reconciliations on any significant transaction areas relating to the business, which should include but not be limited to, accruals, capital assets, utility billings, deposit liabilities, grants and reporting of the schedule of federal expenditures.

Condition: Final reconciliations regarding accounting for accruals, capital assets, utility billings, deposit liabilities, grants and the reporting of the schedule of federal expenditures were delayed when the audit commenced.

Cause: The Corporation finance team had turnover in fiscal 2025, which lead to many of the delays in reconciliations and reporting being done timely.

Effect: The results of this process identified adjustments to deposit liabilities of \$5 million, accrued expenses for \$3.8 million, net capital assets of \$9.3 million. Further, grant expenses were adjusted by \$2.7 million, resulting in an adjustment to the schedule of expenditures of federal awards. All adjustments were identified by the Corporation during the audit.

Further, it was noted that the Corporation had errors in utility billings as a result of incorrect rates being used resulting in a recorded adjustment of \$29 thousand and a passed adjustment of \$65 thousand.

RECOMMENDATION

2025-028 The auditors recommended that the Corporation enhance internal control policies and procedures to correct this process going forward.

Management’s Views and Corrective Actions:

Quonset Development Corporation has a proven history of delivering accurate and timely financial reporting. The challenges noted in this year's report stem from staffing turnover. Since then, the Finance team has coalesced into a robust and dependable unit, diligently working to ensure continued excellence in financial management and reporting.

Additionally, during the audit the Corporation experienced a cyber incident that delayed audit work for several weeks.

Going forward, the Finance team will strengthen month-end checklists by incorporating proactive reviews for potential adjustments, implementing comprehensive training on billing systems and best practices, and enforcing tighter reconciliation timelines. Quonset Development Corporation is unwavering in its dedication

to delivering precise and timely financial reporting, ensuring robust support for its mission to maximize the operational and developmental potential of the Business Park.

Anticipated Completion Date: Ongoing

Contact Person: Patricia Testa, Chief Financial Officer, Quonset Development Corporation
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Finding 2025-029

(material weakness – new finding)

RHODE ISLAND RESOURCE RECOVERY CORPORATION – INTERNAL CONTROL OVER FINANCIAL REPORTING

Criteria: The Corporation is responsible for financial reporting in the form of financial statements that present fairly, in all material respects, the respective financial position, changes in financial position, and statement of cash flows.

Condition: The Corporation did not account for its 401(a) Profit Sharing Plan, a defined contribution plan, in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 84.

Cause: The Corporation accounted for its 401(a) Profit Sharing Plan, a defined contribution plan, in as Fiduciary Activities in the June 2024 financial statements.

Effect: The Corporation had an overstatement of \$38,456,931 in Fiduciary Net Position as of July 1, 2024.

RECOMMENDATION

2025-029 The auditors recommended that the Corporation evaluate the current financial reporting processes and controls to ensure that controls are in place to present external financial statements in accordance with U.S. GAAP.

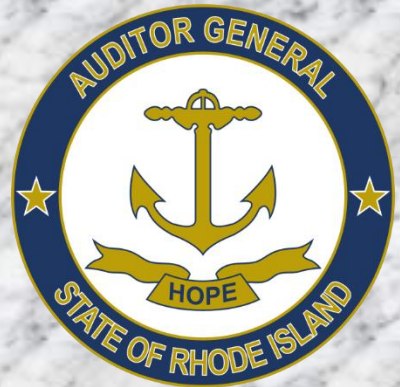
Management's Views and Corrective Actions:

Management concurs with this finding. The Corporation previously relied on its former accounting firm to assist with the initial implementation of GASB Statement No. 84, Fiduciary Activities. Going forward, the plan will be excluded from classification as a fiduciary activity in the Corporation's basic financial statements.

Anticipated Completion Date: June 30, 2026

Contact Person: Raymond Ivers, Chief Financial Officer, Rhode Island Resource Recovery Corporation
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**MANAGEMENT
COMMENTS**



ERP TRANSITION IMPACTS TIMELINESS AND COMPLETENESS OF BANK RECONCILIATIONS

The State's transition to a new ERP system for the fiscal 2025 closing resulted in delays in bank reconciliation timeliness and completeness. Those managing the ERP transition and the Treasury will need to continue coordination to ensure that challenges to effective and efficient bank reconciliation processes are addressed as the system becomes fully operational in fiscal 2026.

The State's transition to a new ERP system represents a significant change in business processes and various implementation challenges are to be expected. With appropriate planning and significant efforts by Treasury personnel, the ERP transition during the fiscal 2025 closing did not result in any major impacts to year-end bank reconciliations. The most notable impacts to the fiscal close was that reconciliations were delayed and that more unreconciled variances were observed than in prior audits.

With the State transitioning to the new ERP on July 1, 2025 for the fiscal 2025 closing only, there was very limited ERP impacts on bank reconciliations performed at June 30, 2025. The State, however, will need to prudently manage the timeliness and completeness of bank reconciliations during fiscal 2026 as more challenges will likely arise as the complete functionality of the new ERP is implemented. It will be critical that these challenges get resolved timely to maintain this critical financial control in fiscal 2026.

RECOMMENDATIONS

- MC 2025-01a Closely monitor the timeliness and completeness of bank reconciliations in fiscal 2026 to ensure that this critical financial control remains operational.
- MC 2025-01b Ensure that bank reconciliation variances are fully resolved and required adjustment recorded in a timely manner to ensure accurate financial reporting.

Management's Views and Corrective Actions:

To date, reconciliations have been completed in a timely manner throughout FY26; however, several issues pose risks as we approach year-end close. Due to long-standing reporting problems in Workday since go-live on July 1, the Disbursement account has continued to be overfunded; taking funds from other agency operating accounts. As of present day, this amount is in excess of \$6M.

Other operating accounts are carrying aged items as well. These delays stem from Workday system limitations, including insufficient security access for agencies to complete required actions. The grants module is also causing delays for DOT and DEM to process and clear their aged deposits for the IST and Farmers Market accounts.

Both Payroll Accounts are also experiencing reconciliation challenges in FY26. Treasury is working closely with DOA Central Payroll and the Controller's Office to bring these accounts into alignment with Workday activity and to establish a clear process for managing direct-deposit returns and check voids/reissues. Approximately \$200,000 is currently outstanding due to these issues—funds that must be returned to agency operating accounts.

In preparation for FY26 close, we have documented and communicated these and other ongoing concerns. If not addressed ahead of year-end close, they will have material reporting and reconciliation impacts. Treasury will continue to elevate these challenges and collaborate with state partners to resolve issues within its purview.

Anticipated Completion Date: Ongoing

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DISASTER RECOVERY TESTING

Further progress is needed to mature towards a complete disaster recovery test, inclusive of all supported agencies, which involves real-time production data access for an extended time and then a failback with changed data into the original production environment.

During fiscal year 2025, ETSS completed its data center hardware modernization project utilizing a hyperconverged infrastructure (HCI) platform. In this new platform, the State’s critical data and applications are copied across the environment with a system backbone backup at another DOA location, thus increasing its fault tolerance, resiliency, and reducing its reliance on legacy backup infrastructure.

However, periodic testing of the disaster recovery (DR) plan is a vital component of an overall business continuity plan to increase the likelihood that critical systems can be restored should a disaster disable or suspend operations at the State’s data center. ETSS has a contracted DR “hot site” facility appropriately distanced from the State’s primary operational area. During fiscal 2025, the State did not conduct a DR test as resources were focused on the contractor’s relocation of the hot site. The relocation of the hot site delayed the DR test until October 2025.

To date, ETSS does not conduct a full-scale DR test (as recommended under NIST guidelines) across all systems. Instead, its testing approach focuses on a limited number of agencies that rotate participation on an annual cycle. In addition, while DR tests in the data center simulate recovery scenarios, they fail to replicate the conditions of a full-scale disaster.

The State should continue to mature its DR testing process towards a full-scale DR test of all supported agencies, if not annually, then biennially (with the more limited test performed in the interim years). A full-scale DR test will involve real-time production data access for an extended time followed by a failback with altered data into the original production environment. The State should also consider other disaster recovery improvements such as more regular readiness assessments and inclusion of all systems in the annual DR test.

RECOMMENDATIONS

- MC 2025-02a Ensure that agencies have adopted formal business continuity policies and procedures, which include disaster recovery plans and testing, that adequately address risks and expand the completeness of annual tests by including a greater number of agencies.
- MC 2025-02b Continue to improve DR testing process to replicate a full-scale disaster recovery exercise, at a minimum, biennially.

Management’s Views and Corrective Actions:

The ETSS I&O storage and disaster recovery team members have begun the submission of an RFP to acquire disaster recovery as a service capability to modernize the BCDR process and ensure standard application across all agency applications and services. This effort will also expand testing targeting full testing going forward.

Anticipated Completion Dates: MC 2025-02a – 12/31/2026

MC 2025-02b – Ongoing

*Contact Person: Matthew Lang, DR Engineer, Enterprise Strategy and Services (ETSS)
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Management Comment 2025-03**(repeat comment – 2024-03)**UNRESOLVED BALANCE IN THE PUBLIC SERVICE CORPORATION TAX ESCROW ACCOUNT

Efforts should continue to resolve the unidentified remaining balance in the public service corporation tax escrow account.

Telecommunication companies annually declare the net book value of their tangible assets located in Rhode Island to the Division of Municipal Finance in accordance with Rhode Island General Law § 44-13-13. The Division of Municipal Finance calculates and collects the tax due and distributes the proceeds (net of a 0.75% administrative fee) to the municipalities based on percentage of population.

The collection and disbursement of the tax proceeds are accounted for in an escrow liability account that continued to show an unresolved variance of \$6.3 million at June 30, 2025, increasing \$1.4 million from the prior year. This variance has existed and remained unresolved for an extended period.

Previous efforts to determine the underlying cause of the balance have been unsuccessful and the issue remains without resolution. A portion of the balance can be attributed to the 0.75% administrative fee which has not been transferred from the account for multiple years.

RECOMMENDATION

MC 2025-03 Determine the cause of the unresolved account balance in the Public Service Corporation Tax escrow account and make any required adjustments or distributions.

Management's Views and Corrective Actions:

DOR has worked closely with Accounts and Control to review this account which has historically had an unresolved balance. DOR will continue its efforts to research the historic issue and has documented the process to ensure it doesn't continue to have future issues.

Anticipated Completion Date: Ongoing

*Contact Person: Steve Coleman, Chief, Division of Municipal Finance, Department of Revenue
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Management Comment 2025-04**(repeat comment – 2024-04)**STANDARDIZED AGENCY CAPITAL ASSET INVENTORY POLICIES

The State should formalize annual capital asset inventory procedures for all agencies.

The Office of Accounts and Control requires departments to perform agency-specific inventory verification for capital assets on a four-year cycle. Inventory results are reported to the Office of Accounts and Control which prompts any required accounting adjustments. While this process has improved controls over financial reporting of capital assets, it has continued to highlight capital assets that could not be located or accounted for by State agencies. Improved inventory control is important for both accountability of State assets and to ensure timely reporting and removal of capital assets for financial reporting.

Such findings support ineffective tracking of capital assets by State agencies. The State should mandate requirements for the annual performance and documentation of capital asset inventories. This has become especially important with the increase in laptop and tablet use in recent years to support hybrid work schedules. The mobility of these items necessitates more frequent and thorough accountability of capital assets at the agency level. The new ERP

system should improve agency access to reported capital assets and allow for more accurate and timely inventory processes than the previous paper-based manual processes.

RECOMMENDATION

MC 2025-04 Formalize and implement policies and procedures for annual capital asset inventories by State agencies.

Management’s Views and Corrective Actions:

A&C is working with the State internship office this summer. Part of the work will include revision and update of policies and procedures for capital asset inventories. A&C will meet internally and consider the annual inventory rotation. However, before this can be a mandate, A&C must assess the anticipated workload that will be required from the staff, given the substantial effort already involved in processing information from the agencies for a four-year inventory cycle.

Anticipated Completion Date: Ongoing

Contact Person: *Xiomara Soto, Administrator Financial Management & Reporting,
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Management Comment 2025-05

(repeat comment – 2024-05)

DEPARTMENT OF LABOR AND TRAINING LEGACY SYSTEMS – BUSINESS CONTINUITY RISKS

The legacy systems utilized by the RI Department of Labor and Training (DLT) to process unemployment benefits, temporary disability insurance, and employer taxes have reached end-of-life and pose significant business continuity risks to DLT operations.

The State’s administration of the unemployment insurance (UI) program is a critical function of State government. The State disbursed over \$228 million in unemployment benefits in fiscal 2025 during a period of continued low unemployment. UI benefits during periods of high unemployment can range in the billions. This critical State system currently utilizes a front-end cloud-based application to handle benefit application functions and applicant verification processes (anti-fraud controls). The front-end application process, however, still transmits data to an antiquated legacy system that has limited system support options. The legacy system handles benefit determinations and a variety of functions (e.g., wage history, job search requirements) required to comply with federal requirements of the Unemployment Insurance Program.

The State’s temporary disability insurance (TDI) program provides weekly payments to Rhode Island workers who miss work due to a non-work-related illness or injury. The State disbursed over \$270 million in disability insurance payments in fiscal 2025. DLT uses a separate imaging system to store applications and medical records, which does not interface with the TDI legacy system. The system determines benefit payments and is the official record for TDI claimant files and payments.

The Employer Tax Unit processes all Quarterly Tax and Wage Reports and accompanying tax payments, submitted by Rhode Island employers. The employer’s “experience” with the unemployment of former employees is the dominant factor in the DLT computation of the employer’s annual State UI tax rate. The computation of the employer’s annual tax rate is based on State UI law and federal regulations. These payments include all required Employment Security, Job Development Fund, and Temporary Disability Insurance taxes. In fiscal 2025, the Employer Tax Unit collected over \$570 million dollars in taxes paid by employers.

During fiscal 2025, the State began planning for the implementation of the strategic plan, which was completed in fiscal 2024, to modernize the State’s DLT legacy systems. The strategic plan provides a roadmap for the modernization of unemployment activities through the implementation of modules for income support and case

management and customer relationship management, while interfacing with the State’s new ERP system for financial management functions. The State must now adopt and approve a funding plan for implementation of the Modernization Strategic Plan, including approval from the federal government and the expected costs that could be reimbursed by federal grants.

RECOMMENDATION

MC 2025-05 Develop a complete implementation and funding plan for the DLT Systems Modernization Strategic Plan.

Management’s Views and Corrective Actions:

A Request for Proposals is ready to be released. In the absence of Federal funding, the Department is working with the State’s Enterprise Technology Strategy and Services Division and the Office of Management and Budget to identify resources but there are competing priorities for limited funding. In the meantime, we continue to monitor systems that would notify us about the availability of Federal grant opportunities.

Anticipated Completion Date: To be determined

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Management Comment 2025-06 (repeat comment – 2024-06)

BUSINESS CONTINUITY GOVERNANCE AND VULNERABILITY MANAGEMENT

The State lacks consistent governance, timely updates, and uniform remediation across its business continuity, incident response, and vulnerability management processes.

The State lacks consistent governance, timely updates, and uniform remediation across its business continuity, incident response (IR), and vulnerability management processes. ETSS fulfills its responsibilities, but agencies frequently do not remediate assigned vulnerabilities timely due to limited resources, leaving risks unaddressed.

Key IR standards (NIST SP 800-53, SP 800-61, SP 800-115, and ITIL) require timely remediation, trained teams, maintained plans, structured penetration testing, clear accountability, and encryption of sensitive data. These expectations are not met consistently statewide.

IR program maturity varies widely throughout the State. Many agencies lack updated IR plans, formal training, and follow-through on after-action reviews or remediation milestones. Penetration testing conducted in fiscal 2025 revealed numerous unresolved vulnerabilities, and oversight mechanisms inconsistently applied. ETSS’s encryption controls remain effective, but agency remediation practices were not. These deficiencies stem from agencies that have weak governance, insufficient monitoring, and uneven enforcement of shared-responsibility requirements. Resource shortages, technical challenges, and competing priorities are often cited as causes for untimely remediation.

Failure to maintain IR plans, train personnel, and remediate vulnerabilities increases the likelihood of ineffective incident response, system compromise, data breaches, financial and regulatory exposure, reputational damage, operational disruption, and reduced cyber-insurance viability. Collectively, these circumstances weaken the State’s cybersecurity posture and continuity readiness. Continued maturity of the State’s GRC processes will eventually allow for better management and prioritization of vulnerabilities at the agency level.

RECOMMENDATIONS

MC 2025-06a Strengthen and improve governance, oversight, and accountability within shared cybersecurity responsibilities.

- MC 2025-06b Establish consistent training expectations for incident response across agencies and promote uniform practices for addressing and resolving vulnerabilities.
- MC 2025-06c Broaden statewide support structures that help agencies mature their incident response and business continuity planning capabilities and enhance coordination efforts.
- MC 2025-06d Conduct periodic statewide exercises to assess preparedness, identified risk, and improve agencies abilities to address risk and remediation efforts.

Management’s Views and Corrective Actions:

MC 2025-06a: ETSS Security has defined our shared responsibilities formally in the SSP and continues to provide training via annual cyber and agency touch points to help mature culture in the ‘security is everyone’s responsibility’ practice.

MC 2025-06b: ETSS Security covers reporting, access to data for agency teams to support, and training on remediation under the monthly ‘Continuous Monitoring’ program meetings.

MC 2025-06c: Covered under the larger ETSS security team expansion outlined under ‘2025-019 and 21’.

MC 2025-06d: ETSS in 2024 conducted a CISA led statewide tabletop cyber exercise, responded to a real-word incident in 2024 into 2025, and conducts IR training as part of the current cybersecurity annual training and is planning to conduct a formal tabletop exercise as part of this year’s cyber month in October. ETSS Security also provides topic specific training during cyber month in October and is planning to focus on IR in 2026.

*Anticipated Completion Dates: MC 2025-06a&c: 12/31/2026
MC 2025-06b&d: Ongoing*

*Contact Person: Nathan Loura, CISO, Enterprise Strategy and Services (ETSS)
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Management Comment 2025-07	(repeat comment – 2024-07)
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INFORMATION TECHNOLOGY HARDWARE LIFECYCLE MANAGEMENT PROGRAM

The State needs to incorporate a centralized Hardware Lifecycle Management (HLM) program to improve planning, acquisition, implementation, maintenance, upgrade, and disposal of IT hardware.

The State’s IT environment utilizes various hardware components critical to its operation and security. These hardware components include routers, switches, servers, hubs, firewalls, intrusion detection devices, etc. The quantity of hardware components within the State’s IT domain requiring management is substantial. The State needs to fully develop and incorporate a centralized HLM program to better manage its inventory of IT hardware components and ensure proper proactive planning for replacement of end-of-life equipment. An effective HLM program strengthens IT security by enhancing vulnerability management, evaluating security risks to underlying assets, improving device configuration management, and facilitating more effective incident response.

During fiscal year 2025, ETSS launched several new components within the current ticketing system, ServiceNow application, to address a true HLM program. This was spearheaded with the implementation of the Configuration Management Database (CMDB) module within ServiceNow, inclusive of a subcomponent designed to address hardware lifecycle management, known as Hardware Asset Management. The intent is for the CMDB module to eventually serve as the State’s central repository for information about hardware, software, and IT infrastructure components. This implementation is the first phase of the HLM administration program. A complete implementation of an HLM program, for an entity the size and complexity of the State, is a significant project that currently has limited available resources. The timing and achievement of an effective HLM process will likely take several years unless more resources can be devoted to this project.

In recent years, ETSS has dedicated resources to replacing a backlog of end-of-life equipment throughout the IT enterprise. This effort continued through fiscal 2025 and into 2026. This highlights the need for a structured HLM program that assists the State moving forward and prevents future usage of outdated equipment. Equipment budgeting, procurement, security compliance monitoring, maintenance scheduling, and inventory management would also be enhanced through an effective HLM program.

RECOMMENDATION

MC 2025-07 Consider additional resources to expedite the implementation of an HLM program that will allow the State to more effectively manage its inventory of IT hardware components and ensure proper proactive planning for replacement of end-of-life equipment.

Management’s Views and Corrective Actions:

ETSS CTO is involved in the outline personnel resource planning defined in other comments. The ETSS CTO will continue to reassess needed resources to support HLM as his teams further mature programs like ‘get current, stay current’. ETSS CTO teams have also made enhancements to ServiceNow to mature the CMDDB.

Anticipated Completion Date: Ongoing

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Management Comment 2025-08	(new comment)
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ADDITIONAL CAPITAL INVESTMENT NEEDED TO APPROPRIATELY MAINTAIN THE STATE’S DATA CENTER

The Enterprise Operations Center, over time, has accumulated environmental control failures that require mitigation to maintain appropriate levels of operational standards.

The State acquired the building that serves as the current data center, formally called the Enterprise Operations Center (EOC) in 2011. When acquired, the facility contained a preexisting data center space (secured access, raised floor and appropriate cooling) making it suitable for operations. In recent years, aging infrastructure and outdated buildout specifications strained the environmental cooling systems, which began to fail. Although repairs were completed and a replacement HVAC system budget was approved in June 2025, deployment of the new system has been delayed due to design changes. As a result, the current HVAC system remains at risk, with additional component failures requiring costly repairs. Preliminary construction on the new system has started but is not expected to be completed until mid-summer 2026.

The main distribution frame (MDF) space in the same building also faces environmental and fire-mitigation issues tied to the original construction. Its original HVAC system was replaced with a modern mini-split unit, which has since failed, forcing the State to reactivate the original system, which has been challenged to maintain the cooling needs of the facility. This MDF space also relies on a water-based fire suppression system, which poses a significant risk to critical equipment should an ignition event take place. Activation of the sprinklers would damage equipment in the room, not just the ignition source, and cause a major disruption of services to State operations.

Compounding these risks, the networking equipment in the MDF lacks dual power supply capability, a standard redundancy feature in modern MDF environments. Best practices call for equipment to be powered through parallel sources routed through bilateral uninterrupted power supply (UPS) and connected to dual power inputs on each device, ensuring continued operation if a power supply module fails. With ongoing temperature and humidity issues, there is increased concern relating to accelerated degradation of power supply modules, further elevating the risk of equipment failure.

Acknowledging that certain investment in prior years was likely delayed as the State was considering the potential relocation of the data center, additional capital investments in the EOC must be considered to modernize the facility for longer term use.

RECOMMENDATION

MC 2025-08 Consider the required capital investment in the EOC to 1) prioritize the completion of the HVAC system overhaul prior to hot weather months, 2) modernize the MDF fire suppression system with a clean agent system, and 3) address all single power supply equipment devices in the MDF space to ensure dual power supply capability.

Management's Views and Corrective Actions:

DCAMM has recently completed an overhaul of the HVAC system and completed some testing for fire systems. The ETSS CTO teams also follow a 'cloud first' guidance to move services where compatible and fiscally feasible to cloud hosting vendors to reduce footprint and management overhead of EOC data center.

Anticipated Completion Date: Ongoing

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Management Comment 2025-09

(repeat comment – 2024-09)

FINANCIAL REPORTING OF UNCLAIMED PROPERTY

The State does not currently account for non-monetary unclaimed property remitted to the Office of the General Treasurer in accordance with generally accepted accounting principles (GAAP).

GAAP requires that unclaimed property held by the State be recorded within a custodial fund and that amounts be reported at fair value. While the State currently records monetary assets remitted to the State, it does not report non-monetary assets held as unclaimed property. These unclaimed assets include various types of property including jewelry, stock certificates, and coin collections, as examples.

The Office of the General Treasurer's (Treasury) Unclaimed Property Division performed a physical inventory during fiscal year 2025 and obtained independent appraisals to estimate the value of certain items being held. In fiscal 2026, in accordance with the laws and regulations relating to Unclaimed Property administration, the Treasury held an auction for eligible items and sold approximately \$1.1 million in unclaimed property. Although this process sufficiently determined the appropriate fair value to record unclaimed property under GAAP, the accounting to properly record those amounts was not completed at June 30, 2025.

RECOMMENDATION

MC 2025-09 Ensure that policies and procedures are in place between the Treasury and Office of Accounts and Control to accurately record the value of unclaimed property in the State's fiduciary activities.

Management's Views and Corrective Actions:

Office of the General Treasurer: Treasury is currently finalizing contract negotiations with Artem Appraisals to perform the required valuation work to ensure GAAP compliance for non-monetary unclaimed property. Artem will provide independent fair-value estimates for items such as jewelry, collectibles, stock certificates, and other tangible property. This engagement is structured as a three-year contract, after which Treasury will issue a new RFP to ensure continuity of these services on an annual basis.

Office of Accounts & Control: A&C will work to ensure policies and procedures are in place between the Treasury and A&C to accurately record the value of unclaimed property in the State's fiduciary activities.

As part of the remediation of this finding, the A&C will coordinate with the Treasury Department to obtain a year-end inventory of non-monetary assets held by Treasury and ensure those amounts have been booked

into the ledger by the Treasury Department and that A&C incorporates those amounts into the calculation of unclaimed property.

Anticipated Completion Date: Completed

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Management Comment 2025-10

(repeat comment – 2024-10)

MANAGEMENT’S RESPONSIBILITY FOR IDENTIFYING MATERIAL LAWS AND REGULATIONS

Management’s identification of laws and regulations that could have a direct and material impact on the State’s financial statements needs to be more comprehensive.

Generally accepted auditing standards require that auditors perform tests of the audited entity’s compliance with certain provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the financial statements. It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including those that specifically relate to material amounts and disclosures reported in an entity's financial statements.

For an entity the size of the State, identifying laws, regulations, contracts, and grant agreements (legal, regulatory, and contractual requirements) that could have a direct and material effect on the financial statements is challenging. To meet this responsibility in conjunction with the annual audit of the State’s financial statements, we request management to provide their identification of legal, regulatory, and contractual requirements, that in their opinion, have a direct and material effect on the financial statements. The State’s response to our request in recent years has been incomplete, supporting the need for more comprehensive consideration and documentation of legal, regulatory, and contractual requirements to demonstrate management’s responsibilities in this area. The State has also been unaware of certain legislation adopted that required certain entities to be considered as component units of the State until prompted by the auditors.

The State needs to conduct a comprehensive review of legal, regulatory, and contractual requirements and adequately document those that could have a direct and material effect on the financial statements. The State should also document any related procedures that ensure the State’s compliance with these requirements in conjunction with the State’s documentation of internal control. Once completed, this documentation will require annual update for newly adopted requirements or changes to existing laws, regulations, or contracts.

RECOMMENDATIONS

- MC 2025-10a Conduct a comprehensive review of legal, regulatory, and contractual requirements and adequately document those that could have a direct and material effect on the financial statements.
- MC 2025-10b Evaluate legislation annually for potential changes to the financial reporting entity to ensure timely consideration in the State’s financial statements.

Management’s Views and Corrective Actions:

A&C met several times with team members from the State Budget Office, Office of Management and Budget, and Legal Services in late summer 2025 to discuss the budget as enacted documents for the fiscal year 2026

budget. The purpose of the meeting was to inform A&C of any legislative or regulatory changes which took place in the prior year that could potentially have an impact on the financial statements.

Anticipated Completion Date: Completed

Contact Persons: Dorothy Pascale, State Controller, Office of Accounts and Control

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Tara Mello, Associate Controller, Office of Accounts and Control

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Management Comment 2025-11

(repeat comment – 2024-11)

POLLUTION REMEDIATION OBLIGATIONS

The State’s identification and recording of pollution remediation obligations, which relies on data and information from multiple agencies, does not adequately document all considerations required by accounting standards.

The State reports pollution remediation obligations in the financial statements annually. Documentation submitted to the Office of Accounts and Control by agencies responsible for monitoring and performing pollution remediation is incomplete and lacks the formalization needed to support the considerations required by accounting standards. The following are areas where the State needs to improve its documentation:

- All potential pollution sites monitored by the Department of Environmental Management should be evaluated, documenting whether an “obligating event” exists in relation to those sites, and whether the State is responsible for monitoring and/or remediation activities. Obligating events can occur due to public health and welfare regardless of whether the polluted site is State-owned. The State’s specific responsibilities for monitoring and/or remediation should be documented for each site.
- Recognition benchmarks, including annual revisions, that support the range of liability related to each site that the State is obligated for should be identified and documented.
- The estimation method used and the support of the estimated future costs, based on the appropriate recognition benchmark reached in the remediation process, should be included in the documentation.

Documentation needs to be improved to support the completeness and accuracy of pollution remediation liabilities reported in the financial statements.

RECOMMENDATION

MC 2025-11 Improve documentation supporting the completeness and accuracy of pollution remediation obligations reported in the financial statements.

Management’s Views and Corrective Actions:

With the implementation of ERP, the respective agencies will own the process for recording their own pollution remediation obligations in the financial statements.

During fiscal year 2025, A&C coordinated a meeting with the two primary agencies involved in the pollution remediation liability calculation, DEM and DOT. During the meeting, the importance of coordination between the agencies to ensure the completeness and accuracy of the data used in preparing the calculation was emphasized. Both agencies agreed to work collaboratively to improve the quality and consistency of the data provided.

A&C will continue to request supporting data necessary to ensure the completeness and accuracy of the liability recorded at year-end in a manner that meets applicable expectations and reporting requirements. Ultimately the supporting documentation provided is the responsibility of the two agencies.

Anticipated Completion Date: Fiscal Year 2026

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Management Comment 2025-12

(prior finding – 2024-021)

VENDOR AND CONTRACTOR MANAGEMENT – INFORMATION SECURITY OVERSIGHT

Organizations are required to identify, assess, and monitor supply chain risks from contractors and service providers. Standard practices include vulnerability assessments, penetration testing, SOC reviews, and evaluating vendor policies for protecting sensitive data.

The State depends heavily on third-party software, contractor-supported systems, and Software as a Service (SaaS) solutions. As part of advancing vendor management processes in fiscal 2025, the Chief Information Security Officer began conducting initial security reviews for new procurements consistent with NIST SP 800-53 §SR-2 guidelines. While this represented progress in overall vendor management and risk assessment procedures, risk evaluations for existing vendors and service providers still lagged and overall processes were manually intensive during the initial implementation phase. Vendor and contractor oversight varies across agencies, many of which lack the security expertise needed to evaluate vendor controls or SOC reports.

In fiscal 2025, ETSS expanded its Governance, Risk, and Compliance (GRC) platform with a third-party risk management module to improve vendor tracking and assessments. While this created a more consistent and documented review process, semi-manual workflows still limit timeliness and standardization, relying on manual form distribution, monitoring, and data entry. Due to the number of IT vendors, systems, and applications employed across the enterprise, implementing and maintaining the GRC platform will be a significant challenge with the available resources. Additional GRC modules may be needed to automate more of the vendor risk management process.

NIST SP 800-171 §3.11.01 requires organizations to identify, assess, and monitor supply chain risks from contractors and service providers. Standard practices include vulnerability assessments, penetration testing, SOC reviews, and evaluating vendor policies for protecting sensitive data. These controls require trained professionals, yet agencies with minimal security knowledge must assess them without sufficient understanding of risk or compliance.

These gaps, combined with manual GRC processes, weaken statewide vendor risk management. Without a fully formalized and automated review process, the State faces increased exposure to security breaches, operational disruptions, financial and reputational harm, and potential compromise of sensitive data. Delays and inconsistent assessments also reduce alignment with NIST supply chain risk management requirements.

RECOMMENDATIONS

- MC 2025-12a Enhance the GRC platform by automating assessment distribution, collection, and integration to improve efficiency, accuracy, and scalability.
- MC 2025-12b Consider whether additional resources or GRC expansion will be needed to fully implement and maintain the State’s vendor management processes moving forward.

Management’s Views and Corrective Actions:

MC 2025-12a: ETSS GRC teams have built and completed roughly 700 new products assessments within the recently implemented GRC platform Archer. ETSS GRC have now moved into the next project phase of automating this process within the platform.

MC 2025-12b: ETSS Security continues to assess need for resources under the larger ETSS security team expansion outlined under '2025-019 and 21'.

Anticipated Completion Dates: MC 2025-12a: 12/31/2026
MC 2025-12b: Ongoing

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Management Comment 2025-13

(new comment)

CONTROLS OVER REPORTING RETAINAGE LIABILITIES

Controls are currently lacking to ensure accurate and complete recording of retainage liabilities at year-end.

The State had a significant number of capital projects during the year where retainage was being withheld from contractor payments pending project completion. The State lacked centralized accounting for retainage amounts which subsequently resulted in misstatements and omissions of retainage due at June 30, 2025. In addition, errors in recorded accruals at June 30, 2025, overstated retainage liabilities for contract services not rendered at June 30, 2025. All misstatements were corrected by audit adjustments.

The lack of tracking of retainage in the accounting system and reliance on manual accumulation of outstanding liabilities at year-end is error-prone and does not ensure the accuracy and completeness of reported liabilities. The State should adopt and communicate standardized procedures that allow for agencies to properly record construction or contractor payments in the new ERP system so that retainage is tracked and accounted for by the system.

RECOMMENDATION

MC 2025-13 Adopt and communicate standardized procedures that allow agencies to properly record construction or contractor payments in the new ERP system to allow for systemic tracking and accounting of retainage liabilities.

Management's Views and Corrective Actions:

Accounts and Control is working with the Division of Purchases to include additional information on purchase order agreements for retainage. We are currently exploring a solution to incorporate into the ERP receiving transaction, so the retainage balance is automatically recorded and released to track the proper balance.

Anticipated Completion Date: Fiscal Year 2027

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PERIODIC REEVALUATION OF ESTIMATES FOR TAX REVENUE AND REFUND ACCRUALS

The State should periodically review estimation methodologies to ensure that the annual accruals for tax revenues and refunds are reasonably consistent with actual historical results and experience.

Management is responsible for ensuring the reasonableness of tax accrual estimates which constitute a significant amount of reported tax revenue and related refund contra-revenue amounts reported in the State's financial statements. Those responsibilities require management to (1) maintain comprehensive calculations and analysis supporting revenue estimates and accruals, (2) consider the impacts of tax law changes on estimation methods, and (3) perform periodic reconciliations between accrued estimates and actual tax payments to ensure accuracy and reduce misstatements.

While the State has consistently applied estimation methodologies annually, documentation of the assumptions supporting those methodologies is lacking. In addition, it does not periodically conduct required lookback analyses to evaluate how tax accrual estimates compare to the actual tax revenues and refunds reported in prior periods. Such analysis is needed to support the reasonableness of tax accrual methodologies being performed annually within financial reporting. Such analysis should be performed at defined intervals and whenever certain tax accruals experience a significant tax law or regulation change.

RECOMMENDATIONS

- MC 2025-14a Document the assumptions that support the current tax revenue and refund estimation methodologies to aid their periodic reevaluation.
- MC 2025-14b Periodically conduct required lookback analyses to evaluate how tax accrual estimates compared to the actual tax revenue and refund liabilities reported for prior periods.

Management's Views and Corrective Actions:

MC 2025-14a: A&C will review and determine how to best improve upon documentation of assumptions.

MC 2025-14b: A&C will coordinate with the Office of Revenue Analysis to determine process for evaluating prior year estimation reasonableness.

Anticipated Completion Date: Fiscal Year 2027

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