



Audit Summary

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State of Rhode Island Findings and Management Comments Resulting from Annual Audit *Fiscal Year Ended June 30, 2021*

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, 2021. 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. Findings repeated from prior years are identified.

The State is implementing its strategic plan to replace and enhance key statewide financial and administrative systems and is in the process of selecting a software vendor and system integrator. The implementation should focus on ensuring a successful outcome through effective management of critical risks. The plan detailed the need for, and the benefits to be derived from, an enterprise applications modernization effort ultimately concluding that "the risks of inaction far outweigh the cost of upgrades in capability".

This effort is intended to address certain long-standing issues which negatively impact controls over operations and financial reporting resulting from the need for (1) increased investment in information technology to keep pace with citizen expectations, (2) rapid technology advancements, (3) meeting federal program compliance mandates, and (4) addressing business continuity risks.

Controls within the systems used to process unemployment insurance claims are insufficient to prevent fraudulent unemployment insurance benefit payments. The Department of Labor and Training has identified a significant amount of fraudulent benefits paid to claimants. The State's system for payment of unemployment insurance claims and collection of employment taxes is outdated.

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.

The State should commit to providing additional training and implementation materials to assist departments and agencies in documenting their internal control. An internal control assessment and documentation effort should be implemented.

The State can continue to improve its consideration of controls over functions performed by external parties by enhancing the 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, various State initiatives, and additional challenges resulting from the implementation of its RIBridges eligibility system. Medicaid is the State's single largest activity - representing nearly 35% of the annual budgeted outlays of the State's General Fund.

| Summary of findings related to the audit of the State's Fiscal 2021 Financial Statements | | | |
|--|--------------------|-----------------|-------|
| | Primary government | Component units | Total |
| Findings related to the financial statements | | | |
| Material weaknesses in internal control | 7 | 3 | 10 |
| Significant deficiencies in internal control | 22 | 3 | 25 |
| Material noncompliance | 1 | 1 | 2 |
| Management Comments | 16 | | |

The Executive Office of Health and Human Services (EOHHS) authorized more than \$170 million in system payouts and manual disbursements in fiscal 2021, representing provider advances, payments to managed care organizations for contract settlements and/or non-claims based financial activity, and other program disbursements. The reporting and internal control processes relating to these types of disbursements are manual in nature and external to other established control procedures.

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.

The State can improve controls over the use of the DBC Debt Manager system to support debt related accounting entries.

Procedures for recording transactions included in the government-wide financial statements can be improved.

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Findings and Management Comments from the Audit of the State's Fiscal 2021 Financial Statements

A variance of \$2.5 million existed between the balance of the unexpended Coronavirus Relief Funds and the total federal award less cumulative expenditures through June 30, 2021. Reconciliations should also be completed to ensure eligible expenditures were not reimbursed from more than one funding source.

The State received an unprecedented amount of federal assistance to respond to the effects of the global pandemic. Certain costs were reimbursable under multiple programs and federal guidance was continually evolving which resulted in changing direction as to costs to be applied to specific federal awards.

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

The processes followed for periodic physical inventories of capital assets and the evaluation of inventory results can be improved to ensure that accurate capital asset records are maintained.

Third-party insurance reimbursements for COVID testing totaling \$3.2 million at June 30, 2021 are pending (1) credit to the federal government for previously reimbursed costs or (2) recognition as general revenues. Other third-party insurance recoveries that are in process have not been recognized as receivables, revenue, or amounts due to the federal government.

We proposed multiple material audit adjustments during our audit of the State's fiscal 2021 financial statements.

Taxes receivable required adjustment at year end due to timing differences and the inclusion of some invalid amounts.

The State needs to (1) ensure its IT security policies and procedures are current and (2) complete assessments of compliance for all critical IT applications. Systems posing the most significant operational risk should be prioritized.

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

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

The resources necessary to effectively manage and administer the OPEB (retiree healthcare) System to ensure all functions are met and adequately controlled should be assessed. A unified database or computer application is needed to maintain membership data for each of the State's OPEB plans. This would improve controls over

the administration of the benefit programs and the process to accumulate data necessary for periodic actuarial valuations of the OPEB plans for both funding and accounting purposes.

Our report includes control deficiencies and material noncompliance reported by the independent auditors of 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 16 management comments that highlight opportunities for enhancement of financial-related operational, policy or accounting control matters.

The Office of the General Treasurer can enhance oversight of deposit collateral requirements and further diversify short-term investments. Functionalities to record the purchase and sale of short-term investments should be included in the statewide ERP system under consideration.

The efficiencies expected through implementation of the bank reconciliation software have not been fully achieved since the larger high-volume bank accounts cannot be reconciled using the software.

Bank account payment information for both employees and vendors are susceptible to fraudulent or unauthorized changes.

The remaining activities of the Division of Higher Education Assistance should be accounted for within the State's General Fund rather than as a discretely presented component unit.

The Tobacco Settlement Financing Corporation requires additional administrative support and should periodically update its projected debt service requirements to reflect operating and other economic factors.

A formal funding policy should be adopted for the State's OPEB plans which incorporates statutory provisions and key actuarial funding policies.

The State should complete an inventory of leases or arrangements where the State has approved private entities to utilize space within State buildings and ensure that all such arrangements are formalized, approved, and centrally administered by the State.

Other comments address increasing the use of ACH for disbursements, subrecipient monitoring, and other accounting and financial reporting issues.

The status of certain prior year findings and management comments that are in the process of implementation are described in the last section of the report.

Management's response to the findings and management comments and planned corrective actions are included in our report.

The audit report is available on our website - www.oag.ri.gov or by calling the office at 401.222.2435.