



Audit Summary

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State of Rhode Island

Single Audit Report and Management Comments

Fiscal Year Ended June 30, 2012

Our annual audit of the State of Rhode Island for the fiscal year ended June 30, 2012 resulted in findings and recommendations related to many of the State's key operations including State accounting systems, information technology controls, and the administration of federal programs such as Medicaid and Race to the Top education grants.

These findings and recommendations are contained in two audit reports which result from a comprehensive audit of the State's financial statements and its administration of federal programs for fiscal 2012:

- The **Single Audit Report** is required by both State and federal law and is communicated to federal funding agencies as a condition of continued federal assistance. The Single Audit Report includes a schedule of expenditures of federal awards and findings and recommendations to improve compliance with federal program requirements.
- The **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance – Schedule of Findings and Responses – June 30, 2012 Audit** - includes the financial statement findings (organized by functional area), that are also included in the Single Audit Report and 25 management comments, which are less significant findings that represent opportunities for efficiency or enhancing controls.

These reports supplement our Independent Auditor's Report on the financial statements as included in the State's Fiscal 2012 Comprehensive Annual Financial Report completed in December 2012.

Financial Statement Related Findings

We communicated various deficiencies in internal control over financial reporting. 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.

The control deficiencies identified address statewide accounting systems and other financial reporting matters. Recommendations include developing a strategic plan to complete and fully realize the benefits of a comprehensive enterprise resource planning system for the State, improving controls over financial reporting for federal program revenue and expenditures, and segregating certain duties within the Office of the General Treasurer.

Additionally, oversight and monitoring of the Medicaid program requires improvement while monitoring of comprehensive information system security policies and procedures and program change controls should also be improved. Controls over tax payments received electronically and administration of the personal income tax system should be enhanced.

Use of the RIDOT financial management system and the State's RIFANS (Rhode Island Financial and Accounting Network) system results in control weaknesses and various inefficiencies and the

Audit Highlights

- Expenditures of federal awards totaled \$4.9 billion for fiscal 2012. Nearly \$1.5 billion was non-cash awards principally for federal loan and loan guarantee programs.
- Medicaid is the single largest federal program administered by the State. Costs are shared between the federal and State governments – the federal share was more than \$1 billion for fiscal 2012.
- We reported 37 findings related to accounting controls and financial reporting matters as well as controls over the State's information technology systems (including twelve reported by auditors of the component units).
- We also reported 50 findings related to compliance with federal program requirements. These compliance requirements generally relate to costs allowable for reimbursement, eligibility, cost sharing or matching provisions, and reporting.
- We also reported 25 management comments, which are less significant findings that represent opportunities for efficiency or enhancing controls.

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process of reporting the State's investment in transportation infrastructure requires enhancement.

Certain of these control deficiencies have been or are in the process of being addressed. Others have existed for some time and likely will require comprehensive and strategic plans, covering multiple fiscal years, to eliminate fully. These include plans to address the current status of the State's RIFANS system, which falls significantly short of the enterprise resource planning system originally envisioned. Additionally, the State is challenged to maintain its complex information systems environment without sufficient resources.

The management comments include recommendations concerning centralizing subrecipient monitoring, requiring payroll direct deposit for all State employees, surplus furniture and equipment, estimating the compensated absences liability, child support collections and other issues.

Federal Program Findings

Federal assistance is provided to the State through more than 400 programs, each with specific objectives and requirements. These programs include the larger, well known programs like Medicaid, SNAP (Food Stamps), Temporary Assistance for Needy Families, Highway Planning and Construction and Unemployment Insurance. Other smaller programs have diverse objectives such as farmer's markets, charter schools, and home weatherization. Expenditures of federal awards by the State totaled more than \$4.9 billion for fiscal 2012 of which nearly \$1.5 billion was non-cash awards largely for federal loan and loan guarantee programs.

Compliance requirements vary for each program; however, most programs have federal requirements relating to (1) costs which are allowable for reimbursement, (2) individuals who may be eligible for benefits, (3) reports required to be submitted to the federal government, (4) cost sharing or matching provisions, and (5) the timing of reimbursement from the federal government.

Medicaid, which pays for medical care for needy individuals, is the single largest federal program administered by the State. Program costs are shared between the State and federal governments with the federal share totaling more than \$1 billion for fiscal 2012. The findings reported for Medicaid address areas such as controls over managed care contract settlements, claims for children in foster care, and a category of Medicaid expenditure permitted by the State's Global Waiver – *Costs Not Otherwise Matchable*. We were unable to determine the allowability of such costs and the eligibility of individuals receiving these benefits due to insufficient documentation and the use of estimates rather than

actual claims. Additionally, we reported that the State did not comply with the requirement to perform audits of inpatient and long-term care facilities participating in the Medicaid program.

For most of the programs tested, we found that the State complied in all material respects with applicable compliance requirements. However, material noncompliance was also reported for the failure to monitor subrecipients receiving funding through the Low-Income Home Energy Assistance, Temporary Assistance for Needy Families and Social Services Block Grant programs. For these programs, required monitoring, including receipt and review of subrecipient audit reports was insufficient to meet federal requirements.

Many of the findings relate to the State's controls to ensure compliance with federal program requirements. For example, we found that the RI Department of Education should improve documentation supporting invoices submitted by consultants performing services funded through the Race to the Top education grants. Payments to consultants totaled nearly \$11 million of the \$17.6 million expended on that program during fiscal 2012.

We also found that discrepancies resulting from data matches were not always investigated or resolved promptly which weakens controls over the determination of eligibility and benefit levels for the Temporary Assistance for Needy Families program.

A corrective action plan, prepared by the State's management, is included in the report which addresses each finding and provides a timetable for implementation. A summary schedule of prior audit findings is also included which reports the status of findings from prior audits. The State's Single Audit Report was submitted to a federal clearinghouse for such reports – this data is then made available to all federal funding agencies.

Copies of this report are available on our website www.oag.ri.gov.