



Audit Summary

Dennis E. Hoyle, CPA, Auditor General

dennis.hoyle@rioag.gov

March 2020

State of Rhode Island

Findings and Management Comments

Audit of the State's Financial Statements Fiscal Year Ended June 30, 2019

The State recently completed a strategic plan to coordinate needed replacements/enhancements to its key statewide financial and administrative systems. Implementation and funding of the strategic plan is essential to ensure that critical legacy financial systems, such as the payroll system, will be available to support State operations.

The strategic plan report details the need for, and the benefits to be derived from, an enterprise applications modernization effort. The report highlights that “the risks of inaction far outweigh the cost of upgrades in capability”.

Prior and current year audit findings highlight that important functionalities are minimally met through legacy systems and multiple departmental processes without intended integration and efficiencies. This results in business continuity risk, decreased efficiency and effectiveness, and control weaknesses. The State has already experienced such integration issues and halted work on a time and effort reporting system and a grants management system. The State had expended nearly \$3 million on those projects.

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, 2019. 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. When corrective actions are underway but incomplete, we note the incremental progress.

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 to coincide with the implementation of a fully integrated ERP system.

The State can continue to improve its consideration of controls over functions performed by external parties by enhancing 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 implementation of its RIBridges eligibility system. Medicaid is the State's single largest activity - representing nearly 40% of the annual budgeted outlays of the State's General Fund.

The State did not comply with its spending hierarchy policy for the RI Veterans' Home where multiple funding sources existed for a single activity.

Responsibility for monitoring the investment activity and other compliance aspects of funds on deposit with a fiscal agent (trustee) can be improved and should be vested with the Office of the General Treasurer.

Fiscal 2019 Findings Summary

35 deficiencies in internal control over financial reporting

32 related to primary government; 3 reported by auditors of component units

- 8 material weaknesses
- 27 significant deficiencies

1 Non-compliance matter (component unit)

14 Management comments - matters of lesser significance that warrant the attention of management

The Executive Office of Health and Human Services (EOHHS) authorized more than \$188 million in system payouts and manual disbursements in fiscal 2019, 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 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. An asset was erroneously reported as unlocated and removed from the inventory records.

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. We found a grant award deferral had not been recognized and a request for additional grant award funding was still pending for fiscal 2019 program costs.

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

For the newly established Information Technology internal service fund, policies should be enhanced to provide for consistent recognition of revenue and expense thereby ensuring the fund operates on as close to a break-even model as possible.

All bank account reconciliations should be performed by the Office of the General Treasurer Business Office - Reconciliation Team.

Controls over cash disbursements can be strengthened by ensuring authorized signers on State bank accounts are current and faithful performance bonds are maintained for key Treasury personnel.

Overall, the State has not sufficiently addressed information technology (IT) security risks. The State needs to ensure its IT security policies and procedures are current and assessments of compliance for all critical IT applications - systems posing the most significant operational risk - are prioritized.

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

Processing functionalities within Division of Taxation's STAARS system result in a volume of returns held in suspense pending resolution. This complicates financial reporting estimates due to the uncertain effect of returns that had not fully processed at fiscal year end.

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

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

Controls to ensure accurate and consistent reporting of investment income and expenses within the pension trusts require enhancement at both the custodian and System management level.

The resources necessary to effectively manage and administer the OPEB (retiree healthcare) System to ensure all System 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 **14 management comments**, which are less significant findings that highlight opportunities for enhancement of financial-related operational, policy or accounting control matters.

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.

Legal case tracking software must be acquired and implemented organization-wide to enhance the administrative management and control of pending legal matters.

The State budget officer performs a variety of accounting-related tasks that should be reassigned to other State operating units.

Certain operating and long-term liability metrics for the Rhode Island Public Transit Authority warrant enhanced oversight by the State to ensure the sustainability and availability of public transit service.

Monitoring of escrow liability account balances can be further enhanced to ensure timely reconciliation of balances and compliance with newly established control procedures.

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

Other management comments address the accounting for capital assets, converting more disbursement transactions to ACH to reduce the volume of checks and wire transfers, subrecipient monitoring, accumulation of significant commitments, and other accounting and financial reporting issues.

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

The State's Fiscal 2019 *Single Audit Report* is in progress and is scheduled to be issued on March 31, 2020. That report will include findings related to controls over compliance with federal program requirements and the administration of federal programs.

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