



Audit Summary

Dennis E. Hoyle, CPA, Auditor General

dennis.hoyle@oag.ri.gov

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State of Rhode Island
Single Audit Report
 Fiscal Year Ended June 30, 2015

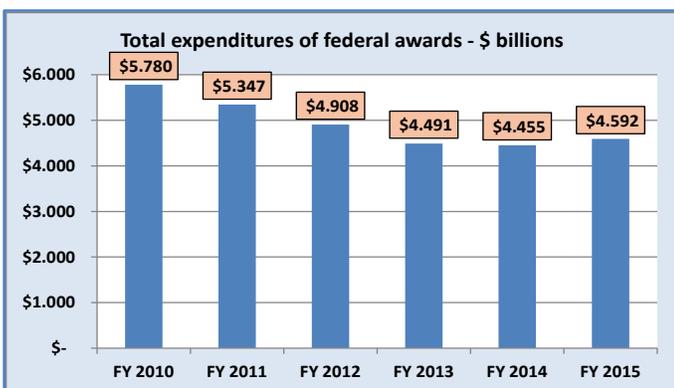
We completed our annual Single Audit of the State of Rhode Island for the fiscal year ended June 30, 2015. The **Single Audit Report**, which is required by both State and federal law as a condition of continued federal assistance, resulted in findings and recommendations related to many of the State's key operations and the administration of federal programs such as Medicaid.

In addition to federal compliance related findings, the Single Audit Report includes the State's financial statements and findings related to the financial statements, which had been previously communicated. The State's Fiscal 2015 Comprehensive Annual Financial Report was completed and available in December 2015.

Federal funding represents more than 41% of the State's General Fund expenditures and is the State's second largest revenue source. Fiscal 2015 expenditures of federal awards totaled \$4.6 billion (including component units). Federal assistance consists of both direct cash and noncash awards (e.g., loan and loan guarantee programs and donated food commodities).

Many programs are jointly financed with federal and state funding -- Medicaid is the single largest program with fiscal 2015 expenditures totaling approximately \$2.6 billion. The federal government shared \$1.6 billion of that cost.

Fiscal 2015 expenditures of federal awards increased \$137 million following declines in previous years largely due to the phase-out of federal stimulus funding (American Recovery and Reinvestment Act). More recently in fiscal 2015, reductions in federally insured student loan balances and reductions in unemployment insurance benefits were offset by increases in Medicaid funding due to the implementation of the Affordable Care Act.



The Single Audit Report includes 76 findings as summarized in the following table. Of the findings, 50 relate to federal programs including programs administered by component units of the State (e.g., URI, RIC, CCRI, and RIPTA).

| Summary of findings included in the <i>Single Audit Report</i> | | | |
|--|--------------------|-----------------|-----------|
| | Primary government | Component units | Total |
| Findings related to the financial statements | 18 | 8 | 26 |
| Findings related to the administration of federal programs | | | |
| Control weaknesses over federal compliance | 40 | 5 | 45 |
| Material noncompliance | 3 | | 3 |
| Other noncompliance matters | 2 | | 2 |
| Total | 63 | 13 | 76 |

Federal assistance is received under a wide variety of more than 400 individual programs. Consistent with federal guidelines, we tested 91% of the total expenditures of federal awards as major programs. Major program expenditures are summarized in the pie chart on the following page by program type.

Major programs are defined based on total dollars expended and risk. Because two larger programs had no findings in the prior audit, two smaller programs were tested in fiscal 2015 – the Fresh Fruit and Vegetable Program and the Maternal, Infant, and Early Childhood Home Visiting Program.

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.

For most of the programs tested, we found that the State complied in all material respects with applicable compliance requirements. We reported material noncompliance for the Unemployment Insurance, Highway Planning and Construction, and the Low-Income Home Energy Assistance Programs.

Certain findings related to federal programs are highlighted on the next page.

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Medicaid:

- The Executive Office of Health and Human Services (EOHHS) lacks strong oversight procedures regarding fiscal monitoring and contract settlement for its managed care organizations (MCOs). Capitation payments to MCOs represent nearly 75% of all Medicaid outlays. EOHHS needs to develop a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled each contract period. More stringent audit and financial monitoring procedures should be employed.
- Controls over Medicaid eligibility determined through the Unified Health Infrastructure Project (UHIP) were weakened during fiscal 2015 due to system design and implementation issues and ineffective oversight of eligibility determination activities.
- Governance for the UHIP development project can be enhanced to ensure contractual requirements are met by the lead development vendor and others and also to ensure that system defects and other implementation issues are identified, prioritized and corrected on a timely basis.
- Delays in the enrollment of Medicaid eligible newborns within UHIP have resulted in significant delays in related claims adjudication and payments to providers. These processing delays resulted in manual advances paid to providers.

Unemployment Insurance – The Department of Labor and Training did not make the necessary changes to its system to allow the imposition of penalties on overpayments due to fraud, and to prohibit relief from charges to an employer’s account when the overpayment was the result of the employer’s failure to respond timely or adequately to a request for information.

Highway Planning and Construction – The Rhode Island Department of Transportation (RIDOT) should further enhance its quality assurance program to ensure that required materials tests are performed and documented consistent with federal and RIDOT policy.

HealthSource RI – HealthSource RI can enhance its controls and related documentation supporting the allowability of costs reimbursed through the State Planning and Establishment Grants for the Affordable Care Act’s Exchanges program.

LIHEAP – The Department of Human Services (DHS) did not comply with the period of performance requirement for the Low-Income Home Energy Assistance Program grant - \$5.4 million of awards were not expended or obligated by the required date.

Vocational Rehabilitation – DHS must implement procedures to identify, control and monitor expenditures meeting federal requirements for the mandated 15 percent pre-employment transition services to students with disabilities who are eligible, or potentially eligible, for vocational rehabilitation services.

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.

It is available on the Office of the Auditor General’s website www.oag.ri.gov or by calling the office at 401.222.2435.

Fiscal 2015 Federal Award Expenditures Tested as Major Programs – Summarized by Program Type

