



AUDIT SUMMARY

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INTEGRITY ♦ RELIABILITY ♦ INDEPENDENCE ♦ ACCOUNTABILITY

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SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2001

We completed our Single Audit of the State for the fiscal year ended June 30, 2001. This audit is required by both State and Federal law. The *Single Audit Report* includes the State's general-purpose financial statements, a schedule of federal program expenditures, and findings and recommendations pertaining to the financial statements and federal programs. It also includes a corrective action plan prepared by the State's management to address each finding and provide a timetable for implementation.

The *Single Audit Report* is provided to federal funding agencies as a condition of continued federal assistance.

Financial Statements

We concluded that the State's financial statements present fairly the State's financial position at June 30, 2001 and the results of its operations for the fiscal year then ended except that the State has not reported its investment in general fixed assets as required by generally accepted accounting principles.

Within the State's general fund, revenues and other financing sources were \$46.4 million more than expenditures and other financing uses. The portion of fund balance of the general fund available for appropriation was \$131 million at June 30, 2001.

We found certain deficiencies in the State's accounting and control procedures. The State needs to accumulate and record the information required to report its investment in general fixed assets in the financial statements and improve its accounting systems to record all its long-term obligations. Controls over access to several of its key computer systems need to be improved. A formal disaster recovery plan must be developed for all computer operations performed at the State Data Center.

We also found that accounting controls should be improved to accurately identify and record federal revenues and other matching project revenues within the Intermodal Surface Transportation Efficiency Act (ISTEA) Fund. The ISTEA Fund accounts for federal/state highway projects.

Federal Awards

The State expended federal assistance totaling over \$1.9 billion in the fiscal year ended June 30, 2001. This federal assistance is provided to the State for approximately 405 programs each with specific objectives and requirements. Federal assistance is mostly in the form of cash awards that are used to fully or partially fund federal programs. For example, the federal government funds approximately 54% of Medical Assistance program costs with the State funding the remaining share. The Medicaid program, which pays for medical care for needy individuals, is the single largest federal program administered by the State. Total Medicaid program costs were more than \$1.2 billion for fiscal 2001 with the

federal government's share totaling \$694 million.

AUDIT HIGHLIGHTS

- We expressed a qualified opinion on the State's general-purpose financial statements because the State has not reported its investment in general fixed assets.
- General fund revenues exceeded expenditures by \$46.4 million.
- The State can improve its accounting controls and procedures related to fixed assets and long-term obligations. Additionally, controls over access to several key computer systems can be improved.
- Total expenditures of federal awards were \$1.9 billion in fiscal 2001.
- The State generally complied, in all material respects, with requirements applicable to federal programs; however, we did report instances of material noncompliance and other findings where controls can be improved to enhance compliance.

As part of our audit, we are required to assess compliance with requirements applicable to federal programs. For example, many programs have requirements detailing who is eligible for benefits and most programs have specific limitations on the types of expenditures that may be funded with federal dollars. Additionally, the federal government has requirements regarding the timing of federal reimbursement, equipment purchased with federal funds, federal reports, and monitoring federal funds passed-through to subrecipients.

For most of the programs tested, the State complied in all material respects with applicable compliance requirements. We did report instances where the State did not comply with requirements applicable to certain programs.

The Department of Education implemented a new computer system during fiscal 2001 to administer child nutrition programs. We found that user access to the system was not adequately restricted and controlled. We also found the new system had various design and implementation problems which resulted in reporting deficiencies.

We found that controls need to be strengthened over access to the computer systems which are used to authorize and deliver benefits through the electronic benefit delivery system for Food Stamp and Temporary Assistance for Needy Families Programs.

Data used to determine eligibility for the Temporary Assistance For Needy Families (TANF) program is matched to data contained in other federal and state computer systems. We 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 TANF program.

The State needs to improve oversight of its fiscal agent that processes claims for the Medicaid program. Additional financial monitoring procedures are necessary to ensure that effective controls are in place over program disbursements and that financial data is being accurately reported for presentation in the State's financial statements and federal reports.

We also reported that controls over Medicaid expenditures could be improved by processing all expenditures through one system – the State's Medicaid Management Information System (MMIS). Approximately \$100 million of program expenditures were processed independently of the MMIS. Other independent accounting systems have not been designed to contain all the control procedures of the MMIS.

Third party liability coverage for Medicaid recipients was not always identified timely. In these instances, Medicaid may pay a claim when others should have paid instead. Further, third party liabilities identified after payment were not pursued timely which resulted in lost reimbursements.

Child Support Enforcement needs to enhance control procedures to ensure that medical coverage information is obtained and recorded within its computer system on a timely basis when the Court has ordered an absent parent to provide medical support.

Procedures should be strengthened over billings for homemaker services to verify funding source and the amount of services authorized. Homemaker services are reimbursed through Medicaid and the Social Services Block Grant.

Federal funds passed-through to subrecipients must be monitored by the State to ensure compliance with applicable federal program requirements. We found that the State needs to improve its subrecipient monitoring procedures for the Community Development Block Grant, Social Services Block Grant, Community Services Block Grant, and the Low Income Home Energy Assistance Program.

The State needs to implement centralized monitoring controls to ensure it draws federal funds in reimbursement of program costs at the appropriate time. In most instances, the State does not draw cash quickly enough which adversely impacts its own cash management.

We questioned certain costs reimbursed under federal programs because they may be unallowable under federal guidelines. The federal government will ultimately resolve how much of these amounts, if any, the State will have to repay.

Overall the *Single Audit Report* contains 63 findings with related recommendations to improve the State's controls over financial reporting and the administration of federal programs.

Copies of the Single Audit Report can be obtained by calling 222-2435 or by visiting our website at www.oag.state.ri.us.