



Audit Summary

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Single Audit Report

State of Rhode Island

Fiscal Year Ended June 30, 2010

We completed our Single Audit of the State of Rhode Island for the fiscal year ended June 30, 2010. The *Single Audit Report* results from a comprehensive audit of the State's financial statements and its administration of federal programs for fiscal 2010.

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* for fiscal year 2010 was submitted by the federally required due date of March 31 - the first time that target had been met since submission of the 2006 report.

The report includes the State's basic financial statements, a schedule of federal program expenditures, and findings and recommendations pertaining to the financial statements and federal programs. Certain information (the State's Comprehensive Annual Financial Report and findings related to the financial statements) was made available previously.

The report contains 53 findings and recommendations related to the State's compliance with requirements applicable to federal programs. As required by single audit guidelines, 38 findings related to the State's controls over financial reporting, which were previously reported separately, are also included.

Federal assistance is provided to the State under approximately 400 programs, each with specific objectives and requirements. Program objectives are diverse and include

child immunizations, sport fish restoration, farmer's markets, as well as the better known Medicaid, Temporary Assistance for Needy Families (TANF) and highway construction programs. Expenditures of federal awards by the State totaled nearly \$5.8 billion for fiscal 2010 of which nearly \$2 billion was non-cash awards largely for federal loan and loan guarantee programs. Program expenditures funded by the American Recovery and Reinvestment Act (ARRA) are separately identified in the State's Schedule of Expenditures of Federal Awards.

Report Highlights

- We expressed an unqualified opinion on the State's government-wide financial statements and major fund financial statements.
- Total expenditures of federal awards totaled \$5.8 billion which includes approximately \$2 billion in nonmonetary awards – largely loan and loan guarantees.
- We reported 38 findings related to the financial statements which are primarily related to controls over financial reporting.
- The State generally complied, in all material respects, with requirements applicable to federal programs; however, we reported instances of material noncompliance for 6 programs.
- We reported 53 findings and recommendations to improve controls over the administration of federal programs.

Medicaid, which pays for medical care for needy individuals, is the single largest federal program administered by the State. Total program costs exceeded \$2 billion for fiscal 2010 with the federal government's share totaling nearly \$1.3 billion. Multiple findings related to specific compliance requirements for Medicaid. The findings reported for Medicaid address areas such as controls over managed care contract settlements, claims for children in foster care, eligibility documentation, and a newly allowable category of Medicaid expenditure permitted by the State's Global Waiver – *Costs Not Otherwise Matchable* (CNOM). The auditors questioned the allowability of significant portion of these costs due to the use of estimates rather than actual claims. Additionally, we reported that insufficient personnel resources within the State's Department of Human Services contributed to weakened controls over compliance in a number of key Medicaid program areas.

The State needs to improve oversight of its fiscal agent that processes claims for Medicaid. 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. The State also did not perform the required risk analysis and review of its computer systems used to process Medicaid claims, determine eligibility, and disburse other federal program benefits.

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. However, material noncompliance was reported for six federal programs. In addition, due to the destruction of certain Medicaid provider records lost in the flooding of 2010, we were unable to determine whether the State complied with certain federal compliance requirements.

Many of the findings relate to the State's controls to ensure compliance with federal program requirements. For example, the State Energy Office should improve its procedures to track expenditures related to each grant award for the Low-Income Home Energy Assistance program (LIHEAP) to support required federal reporting and to comply with period of availability limitations. Additionally, the manner in which energy vendors are paid by LIHEAP program subrecipients should be changed to strengthen controls over compliance.

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 (TANF) program. Additionally, certain expenditures required to meet maintenance-of-effort provisions were not consistently documented.

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 can be obtained by calling 222-2435 or by visiting our website at www.oag.ri.gov.