STATE OF RHODE ISLAND

FINDINGS AND MANAGEMENT COMMENTS

Resulting from the Audit of the
State of Rhode Island's
Fiscal 2021 Financial Statements

Dennis E. Hoyle, CPA, Auditor General

Office of the Auditor General

General Assembly

State of Rhode Island

Office of the Auditor General
State of Rhode Island - General Assembly
Dennis E. Hoyle, CPA - Auditor General

oag.ri.gov

33 Broad Street • Suite 201 • Providence, RI • 02903-4177
tel: 401.222.2435 • fax: 401.222.2111

April 5, 2022

Finance Committee of the House of Representatives
Joint Committee on Legislative Services, General Assembly
State of Rhode Island

We have audited the financial statements of the State of Rhode Island for the year ended June 30, 2021 and have issued our report thereon dated January 28, 2022 in the State's Annual Comprehensive Financial Report for fiscal 2021.

As required by *Government Auditing Standards,* we have also prepared a report, dated January 28, 2022 and included herein, on our consideration of the State's internal control over financial reporting, its compliance with certain provisions of laws, regulations and contracts, and other matters required to be reported by those standards. That report includes identification of control deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting as well as instances of material noncompliance. Our findings related to the financial statements are categorized below:

- 36 findings considered significant deficiencies or material weaknesses in internal control over financial reporting; including findings reported by the auditors of component units (legally separate entities included within the State's financial statements).

- 2 findings concerning compliance or other matters required to be reported by *Government Auditing Standards.*

This communication also includes 16 management comments resulting from our audit of the financial statements which are less significant issues that still warrant the attention of management.

Certain findings or management comments reported in the prior year are in the process of implementation and consequently are not repeated; however, the status of implementation is included in Section *IV. - PRIOR YEAR FINDINGS IN IMPLEMENTATION STATUS.*

Our *Single Audit Report* for fiscal 2021 is in progress and is scheduled to be completed later this year. That report will include findings related to controls over compliance with federal program requirements and the administration of federal programs.

The State's management has provided their planned corrective actions relative to these findings and management comments, which have been included herein.

Sincerely,

Dennis E. Hoyle, CPA
Auditor General

State of Rhode Island

Findings and Management Comments
Audit of the Fiscal 2021 Financial Statements

TABLE OF CONTENTS

State of Rhode Island

Findings and Management Comments
Audit of the Fiscal 2021 Financial Statements

TABLE OF CONTENTS *(continued)*

The State is implementing its strategic plan to replace and enhance key statewide financial and administrative systems and is in the process of selecting a software vendor and system integrator. The implementation should focus on ensuring a successful outcome through effective management of critical risks. The strategic plan detailed the need for, and the benefits to be derived from, an enterprise applications modernization effort ultimately concluding that "the risks of inaction far outweigh the cost of upgrades in capability".

This effort is intended to address long-standing issues which negatively impact controls over operations and financial reporting resulting from the need for (1) increased investment in information technology to keep pace with citizen expectations, (2) rapid technology advancements, (3) meeting federal program compliance mandates, and (4) addressing business continuity risks.

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, 2021. 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.

Controls within the systems used to process unemployment insurance claims are insufficient to prevent fraudulent unemployment insurance benefit payments. The Department of Labor and Training has identified a significant amount of fraudulent benefits paid to claimants. The State's system for payment of unemployment insurance claims and collection of employment taxes is outdated.

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.

The State can continue to improve its consideration of controls over functions performed by external parties by enhancing the 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 the implementation of its RIBridges eligibility system. Medicaid is the State's single largest activity - representing nearly 35% of the annual budgeted outlays of the State's General Fund.

The Executive Office of Health and Human Services (EOHHS) authorized more than $170 million in system payouts and manual disbursements in fiscal 2021, 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 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.

The State can improve controls over the use of the DBC Debt Manager system to support debt related accounting entries.

Procedures for recording transactions included in the government-wide financial statements can be improved.

A variance of $2.5 million existed between the balance of the unexpended Coronavirus Relief Funds and the total federal award less cumulative expenditures through June 30, 2021. Reconciliations should also be completed to ensure eligible expenditures were not reimbursed from more than one funding source.

The State received an unprecedented amount of federal assistance to respond to the effects of the global pandemic. Certain costs were reimbursable under multiple programs and federal guidance was continually evolving which resulted in changing direction as to costs to be applied to specific federal awards.

There is an excessive volume of journal entries recorded within the centralized accounting system. This volume weakens controls over the appropriate authorization and classification of expenditures and limits transparency regarding the underlying primary expenditure transactions.

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.

Third-party insurance reimbursements for COVID testing totaling $3.2 million at June 30, 2021 are pending (1) credit to the federal government for previously reimbursed costs or (2) recognition as general revenues. Other third-party insurance recoveries that are in process have not been recognized as receivables, revenue, or amounts due to the federal government.

We proposed multiple material audit adjustments during our audit of the State's fiscal 2021 financial statements.

Taxes receivable required adjustment at year end due to timing differences and the inclusion of some invalid amounts.

The State needs to (1) ensure its IT security policies and procedures are current and (2) complete assessments of compliance for all critical IT applications. Systems posing the most significant operational risk should be 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.

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.

The resources necessary to effectively manage and administer the OPEB (retiree healthcare) System to ensure all 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 16 management comments that highlight opportunities for enhancement of financial-related operational, policy or accounting control matters.

The Office of the General Treasurer can enhance oversight of deposit collateral requirements and further diversify short-term investments. Functionalities to record the purchase and sale of short-term investments should be included in the proposed statewide ERP system.

The efficiencies expected through implementation of the bank reconciliation software have not been fully achieved since the larger high-volume bank accounts cannot be reconciled using the software.

Bank account payment information for both employees and vendors are susceptible to fraudulent or unauthorized changes.

The remaining activities of the Division of Higher Education Assistance should be accounted for within the State's General Fund rather than as a discretely presented component unit.

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.

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

The State should complete an inventory of leases or arrangements where the State has approved private entities to utilize space within State buildings and ensure that all such arrangements are formalized, approved, and centrally administered by the State.

Other comments address increasing the use of ACH for disbursements, subrecipient monitoring, and other accounting and financial reporting issues.

The status of certain prior year findings and management comments that are being implemented are described in the last section of this report.

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

and

SCHEDULE OF FINDINGS AND RESPONSES

Office of the Auditor General
State of Rhode Island - General Assembly
Dennis E. Hoyle, CPA - Auditor General
oag.ri.gov
33 Broad Street • Suite 201 • Providence, RI • 02903-4177
tel: 401.222.2435 • fax: 401.222.2111

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly,
State of Rhode Island

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Rhode Island (the State), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the State's basic financial statements and have issued our report thereon dated January 28, 2022. Our report includes a reference to other auditors who audited the financial statements of:

- the Tobacco Settlement Financing Corporation, a blended component unit which represents less than 1% of the assets and deferred outflows and the revenues of the governmental activities and less than 1% of the assets and the revenues of the aggregate remaining fund information;

- the Convention Center Authority, a major fund, which represents 37% of the assets and deferred outflows and less than 1% of the revenues of the business-type activities;

- the Ocean State Investment Pool - an investment trust fund, and the HealthSource RI, Rhode Island Higher Education Savings, and ABLE private-purpose trust funds, which collectively represent 29% of the assets and 22% of the revenues, including additions, of the aggregate remaining fund information; and

- all the component units comprising the aggregate discretely presented component units.

This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we and the other auditors did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly

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. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the State's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: Findings 2021-002, 2021-003, 2021-004, 2021-005, 2021-009, 2021-022, and 2021-027. Other auditors of the discretely presented component units considered the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: Findings 2021-031, 2021-033, and 2021-036.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies: Findings 2021-001, 2021-006, 2021-007, 2021-008, 2021-010, 2021-011, 2021-012, 2021-013, 2021-014, 2021-015, 2021-016, 2021-017, 2021-018, 2021-019, 2021-020, 2021-021, 2021-023, 2021-024, 2021-025, 2021-026, 2021-028, and 2021-029. Other auditors of the discretely presented component units considered the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies: Findings: 2021-032, 2021-034, and 2021-035.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance and a matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as Finding 2021-002. Other auditors of the discretely presented component units disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as Finding 2021-030.

State's Response to Findings

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The State's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dennis E. Hoyle, CPA
Auditor General

January 28, 2022

Finding 2021-001 ***(significant deficiency – repeat finding – 2020-001)***

IMPLEMENTATION OF THE STRATEGIC PLAN FOR CRITICAL FINANCIAL AND ADMINISTRATIVE COMPUTER SYSTEMS

The State is implementing its strategic plan to replace and enhance key statewide financial and administrative systems and is in the process of selecting a software vendor and system integrator. The implementation should focus on ensuring a successful outcome through effective management of critical risks.

Background: The State's strategic plan details the need for, and the benefits to be derived from, an enterprise applications modernization effort, highlighting that "the risks of inaction far outweigh the cost of upgrades in capability". Responses to the State's Request for Proposals for a new ERP system are currently being evaluated. Funding has been made available through a direct appropriation of $50 million to the State's Information Technology Investment Fund for this initiative. Implementation of the strategic plan is essential to ensure that critical legacy financial systems, such as the payroll system, which pose a business continuity risk, will be available to support State operations.

Criteria: Management needs well-designed financial systems that support comprehensive internal controls over financial reporting, enable organization-wide efficiencies, and promote business continuity. Integrated functionalities support appropriate internal controls and eliminate inefficiencies resulting from multiple systems, duplicate data entry and ineffective communication between systems.

Condition: Important functionalities are minimally met through legacy systems, the existing statewide accounting system, and multiple departmental processes without intended integration and efficiencies. This results in business continuity risk, decreased efficiency and effectiveness, and control weaknesses. Some of the State's critical systems utilize outdated technology which makes these operations vulnerable from a business continuity and systems security perspective. Certain legacy systems utilize software that is no longer supported and the availability of skilled personnel to work on these systems is limited. Many of the needed financial functionalities are interdependent and, consequently, the risk of failed integration is increased absent appropriate strategic planning and sequencing.

With funding now secured, the primary system implementation risks that remain are (1) selecting software and a system integrator that are the best match for the State's needs, (2) managing the process re-engineering that must be done to align the State's processes to the software-as-a-service functionalities within the ERP system, and (3) ensuring sufficient subject matter experts are involved in the implementation process to ensure a high likelihood of success.

Cause: The State's current accounting and financial reporting system lacks the integration, functionality, and controls of a comprehensive Enterprise Resource Planning (ERP) system. The State's human resource and payroll systems are separate applications that utilize outdated technology and are supported by multiple paper-based data collection and approval processes.

Effect: Business continuity risks, deficiencies in internal control over financial reporting, and the lack of organization-wide efficiencies exist and are exacerbated due to the lack of an integrated ERP system.

RECOMMENDATIONS

2021-001a Select software and a system integrator that are the best match for the State's needs.

2021-001b Manage the process re-engineering that must be done to align the State's processes to the software-as-a-service functionalities within the ERP system.

2021-001c Ensure sufficient subject matter experts are involved in the implementation process to ensure a high likelihood of success.

Management's Views and Corrective Actions:

Division of Information Technology leadership agrees with the need to implement a software-as-a service (SaaS) enterprise resource planning (ERP) system in a comprehensive and strategic manner. The Enterprise Applications Strategic Plan is the foundation for Rhode Island's multi-year effort to transform its enterprise technology and business processes to better meet the needs of the State, its residents, and its partners. The State wants to improve efficiencies, integrate multiple systems, automate manual processes, increase the *quality and timeliness of data to decision makers and replace and modernize its current enterprise technologies. The objectives of modernizing obsolete enterprise applications will:*

- *Address audit findings*
- *Reduce risk*
- *Enable business improvements, provide expanded functionality, and information for managing*
- *Address manual processes that are more prone to errors*

Anticipated Completion Date: *In November of 2021, the State released a request for proposal (RFP22000809) seeking "qualified firms to serve as the systems integrator (SI) and provide SaaS (Software as a Service) ERP (Enterprise Resource Planning) software for the implementation, support and license of a SaaS ERP solution." The procurement process is currently in-progress and the State anticipates selection and contract negotiation to complete in or around April 2022. The RFP calls for the following go-live dates which will be confirmed or updated once the SI/software vendor are selected and a comprehensive project plan is created:*

- *HR/Payroll Go-Live on 12/31/2023*
- *Finance Go-Live on 6/30/2025*

Contact Person: *Jim Ritter, Chief of IT: Agencies and Enterprise Applications*
jim.ritter@doit.ri.gov

Finding 2021-002 ***(material noncompliance, material weakness and other matter required to be reported by Government Auditing Standards – repeat finding – 2020-002)***

CONTROLS OVER UNEMPLOYMENT INSURANCE BENEFIT PAYMENTS

> Controls over the processing of unemployment insurance claims were insufficient to prevent fraudulent unemployment insurance benefit payments. While efforts continue to identify the amount of fraud, the amount of fraudulent payments increased over the prior year. Recoveries of fraudulent unemployment insurance benefits have not been recognized or credited to the federal grantor.

Background: In fiscal 2021, the Department of Labor and Training (DLT) paid more than $2.3 billion in unemployment insurance benefits. In response to the COVID-19 pandemic, the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act expanded and/or extended unemployment insurance benefits, including providing new benefits to self-employed individuals and independent contractors. Fraudulent claims for unemployment insurance benefits also increased rapidly, concurrent with the overall increase in claims due to the pandemic. This unprecedented increase in fraudulent claims was experienced nationwide and was not unique to Rhode Island.

The system used by DLT to process unemployment insurance (UI) benefits utilizes outdated technology. This legacy system is mainframe based and programmed in COBOL. In response to the pandemic-related surge in unemployment insurance claims, new "cloud-based" technologies were rapidly deployed to facilitate processing the volume of claims and interactions with claimants; however, the primary claims processing functions were still performed by the legacy system.

Criteria: Management is responsible for establishing and maintaining effective internal controls to process and disburse unemployment insurance benefits consistent with federal program guidelines including appropriate procedures to prevent and detect fraudulent payments.

Collections on overpayments due to error or fraud must be reported and credited to the appropriate federal award that funded the unemployment insurance benefit.

Condition: DLT's internal control procedures were not sufficiently effective to ensure that unemployment benefit payments were made only to eligible individuals. DLT estimated $70 million in known fraudulent claims were paid between March 2020 and June 30, 2021. An additional $480 million of claims are considered suspected fraud. In response to the increase in fraudulent benefit claims, DLT engaged a contractor to assist in the detection of likely fraud which included the use of advanced analytic techniques. Additionally, identity verification controls have recently been implemented (after June 30, 2021) on a pilot basis.

Controls over claims processing were weakened through suspension of the first week waiting period, a simplified application implemented to streamline and expedite processing, and the inability to apply the normal wage verification procedures to claims from self-employed individuals and independent contractors. In December 2020, the federal government required adherence to the documentation of income provisions for self-employed individuals; however, most claimants did not provide the required documentation and benefits continued.

In some limited instances, claw back of amounts paid to fraudulent beneficiaries has been successful; however, collections and claw backs have not been accounted for within the State's accounting system nor credited back to the appropriate federal award, as applicable.

Cause: The large volume of claims stressed an outdated system and the unprecedented economic impact warranted rapid processing of claims. The rapid implementation of new unemployment benefit programs authorized by the CARES Act did not allow sufficient time to employ wage verification and other procedures. Other procedures to verify client identity, prior wages and overall eligibility were also weakened due to the unprecedented volume of claims and new procedures employed to expedite benefit payments. Lastly, the substantial increase in fraudulent claims activity is largely considered to be the result of sustained and targeted efforts impacting many states.

When fraudulent benefits are successfully clawed-back or collected, the funding source for that benefit must be investigated and determined. Most weekly benefit amounts paid were funded by multiple federal awards (e.g., base benefit + supplemental benefit). The investigation and accounting for these amounts has lagged and was pending at June 30, 2021.

Effect: Fraudulent unemployment insurance claims have been paid and DLT's systems require further enhancements to timely identify fraudulent benefit claims prior to disbursement. DLT remains at a critical juncture in developing a strategy to upgrade and modernize its unemployment insurance claims processing systems while ensuring compliance with federal program requirements including the prevention and detection of fraudulent benefit payments.

The impact of successful collections and claw back of fraudulent benefits was not appropriately reflected on the financial statements of the Employment Security Fund or on federal reports. The federal grantor has not been credited for their share of recoveries.

RECOMMENDATIONS

2021-002a Continue to enhance procedures to timely identify fraudulent claims by strengthening controls within the legacy claims processing system as well as those newly implemented processing functionalities employed to meet the increase in claims activity.

2021-002b Implement a strategic plan to address the required modernization of the unemployment benefit claims processing system.

2021-002c Research recoveries of overpayments or fraudulent payments and record within the State's RIFANS accounting system.

2021-002d Credit the federal government (appropriate federal award) for amounts recovered.

Management's Views and Corrective Actions:

2021-002a - UI leadership, along with our Legal Unit and Department of Information Technology, work continuously to identify opportunities for enhancements within our current systems to identify potential fraud and to detect emerging fraud patterns. We partner with various vendors and federal partners to incorporate identity validation tools, pattern-based impostor fraud identifiers, and fraud intel received from other external sources.

In addition, our Fraud team works in partnership with Federal and State law enforcement to share data and identify potential fraudulent activity.

As the department moves forward toward modernizing our UI claims system, fraud detection strategies will be a priority while building requirements for system operation.

This work is continuous and ongoing.

Contact Person: *Michael White, DLT Legal Counsel*
Michael.White@dlt.ri.gov

2021-002b - The RI DLT and Division of Information Technology are developing a Request for Proposal (RFP) to identify a vendor who will create a strategic plan to address the modernization of DLT's systems, including the UI Benefit Claims processing system. The selected vendor will provide a strategy based on analysis of each system that will inform a larger project to complete the actual modernization and upgrading of the systems. It is anticipated that the draft version of the Strategic Planning RFP will be ready for internal distribution and revision, allowing for the final document to be submitted to State Purchases for publication in March or April 2022.

The future modernization project will include requirements to build in fraud detection safeguards and system capacities that will protect the integrity of the system as it accommodates mass unemployment events, which could result in previously unimaginable claims volume.

Anticipated Completion Date: *December 31, 2022*

Contact Person: *Katherine Catanzaro*
Administrator, Operations Management – Income Support Unit
Kathy.catanzaro@dlt.ri.gov

2021-002c - Business Affairs is currently working with UI Administration to review financial transactions which result from recoveries from fraudulent payments. The divisions will work collaboratively to create procedures to accurately categorize these recovered funds and record within the RIFANS accounting system.

Anticipated Completion Date: *September 30, 2022*

Contact Person: *Katherine Catanzaro*
Administrator, Operations Management – Income Support Unit
Kathy.catanzaro@dlt.ri.gov

2021-002d - The department will work with US Department of Labor to determine the appropriate process for returning funds recovered in each of the CARES, CAA, and ARPA programs.

Anticipated Completion Date: *September 30, 2022*

Contact Person: *Katherine Catanzaro*
Administrator, Operations Management – Income Support Unit
Kathy.catanzaro@dlt.ri.gov

Finding 2021-003 ***(material weakness – repeat finding – 2020-004)***

MEDICAID PROGRAM COMPLEXITY AFFECTS FINANCIAL REPORTING AND OVERALL PROGRAM CONTROLS

The continued and growing complexity of Medicaid program operations adds to the challenge of accurately accounting for all Medicaid program related financial activity within the State's financial statements.

Background: The complexity of the Medicaid program increases each year through new federal regulations, complex managed care contract settlement provisions, new State initiatives, and continued challenges relating to the State's integrated human services eligibility system, RIBridges. Medicaid is the State's single largest program activity - representing just under $3 billion in expenditures or approximately 35% of the State's General Fund expenditures. Consequently, the financial aspects of this program are material to the State's financial reporting objectives. Expenditures for individuals covered under managed care approximate $2 billion representing the majority of benefit expenditures reported for Medicaid.

Criteria: Management is responsible for establishing and maintaining internal control over financial reporting to ensure accurate and complete reporting of transactions in accordance with generally accepted accounting principles.

Condition: Significant Medicaid program activity is currently being accounted for external to the systemic controls and processes designed within the Medicaid Management Information System (MMIS). The MMIS was developed as a claims processing system over 30 years ago and was not designed to meet the current processing and reporting needs of the State's managed care programs. Managed care requires a system that can handle capitation adjustments and a more robust adjudication of encounter data submitted by the State's contracted managed care organizations (MCOs). While the MMIS has been modified over time to handle the disbursement of capitation and the submission of encounter data, it lacks the functionality to completely process and account for managed care activity.

Due to the length of settlement periods, eligibility discrepancies between the claims payment system and the State's integrated eligibility system, retroactive capitation adjustments, and the volume of transactions being accumulated and evaluated independent of regular program controls, risks relating to inaccurate financial activity and federal compliance have increased.

The following were examples during fiscal 2021 where financial reporting was impacted by the above condition:

- Retroactive rate increases totaling $86.1 million due to the State's three MCOs were manually settled based on off-line calculations in fiscal 2021;

- Provider capitation recoupments totaling $31.9 million representing a fiscal 2020 rate adjustment for the removal of federally qualified health center supplemental payments was processed in fiscal 2021 and supported by off-line calculations;

- Amounts totaling $2 million due at year-end to the MCOs for vaccination reimbursements not covered under capitation were omitted from year-end accruals;

- EOHHS still lacks processes to validate various "general ledger" adjustments which factor into final MCO contract settlements; and

- Certain year-end manual calculations of liabilities and receivables did not include consistent treatment with how the related expenditures were split amongst the various managed care populations because the year-end calculations are separate and distinct from the systemic processing of the activity during the fiscal year.

While EOHHS's off-line analysis is making every attempt to accurately and completely settle and account for its managed care activities, systemic controls do not currently support those efforts and control deficiencies exist that continue to impact the State's financial reporting. With the State currently exploring procurement for a new MMIS, significant focus should be placed on ensuring that controls over managed care capitation and claiming activity are significantly improved. In the near term, the State should look to utilize federally required audit procedures to improve controls over segments of the managed care settlement process that are currently not being validated.

Cause: Ensuring all financial activity is properly and completely recorded in the State's financial statements is an increasingly complex task. The State does not currently have a system that can process retroactive capitation rate changes and/or changes in participant enrollment category. The current MMIS performs limited edits in encounter data submitted by the plans that are no longer adequate for the size and volume of medical claims covered under capitation.

Effect: Potential effects of this control deficiency include unrecorded or inaccurately recorded financial transactions, incorrect reimbursements to providers or managed care organizations, and noncompliance with federal regulations.

RECOMMENDATIONS

2021-003a Formalize a risk assessment process for significant Medicaid related activities to determine where controls and other data validation procedures are required. Delineate areas where audit procedures could be utilized to validate data currently not supported within contract settlement procedures.

2021-003b Develop specific objectives for managed care data processing (i.e., premium and encounter data processing functionality) that will be required of and included in the specifications for the next MMIS.

2021-003c Minimize instances where material financial activities are reliant on manual processes to ensure proper financial reporting.

Management's Views and Corrective Actions:

2021-003a - The agency will work with the Office of the Auditor General to gain a more detailed understanding of the finding to conduct a more targeted formal risk assessment process to determine where additional controls and other data validation procedures could be used in contract settlement procedures. EOHHS has already engaged with the Managed Care vendors to ask for examples of data sources that could be used.

2021-003b - The MES Planning Vendor (contract to begin ~4/1/22) will be tasked with evaluating the existing MMIS processing for premium payments, capitations and encounters and will be conducting business needs assessments. These details will be incorporated into the RFPs for replacement systems that will perform in alignment with Rhode Island-specific needs and/or have the flexibility to achieve the Programs' objectives in these areas.

2021-003c - EOHHS acknowledges the complexity of the Medicaid program and our financial activities. EOHHS is aware of many of the risks facing the program's financial reporting, including manual payments, and has already taken steps to simplify Medicaid-related financial activities and improve oversight as outlined below. The steps taken to-date to improve oversight are outlined below:

1. *Risk share settlements*
   a. *MCO risk share settlements are based on MCO submitted reporting and validated against accepted encounter claims in the MMIS. EOHHS recognizes that for this reason MCO reporting would ideally be validated against other sources. This is why, in FY20, the state implemented a requirement that the MCOs report quarterly through a new "Financial Data Cost Report" (FDCR) their membership, benefit expenses, including general ledger adjustments, sub-capitated arrangements, reinsurance arrangements, reserves, benefit expense recoveries and administrative costs for each Premium Rating Group. These expenses are reported at either the rate cell and category of service level, or at the product level (Rite Care/Expansion, etc.).*

      Annually, the MCOs must reconcile the information in its FDCR to their NAIC financial statements.

      EOHHS utilizes this FDCR data in rate setting as well as to monitor MCO financial performance throughout the year.

      EOHHS began utilizing the FDCR reporting for risk share settlement beginning with the final reconciliation for FY 2019. This allows for the risk share reporting to be validated against other financial reporting and in alignment with rate setting activities.

b. In addition, in our RFP for MCO vendors, EOHHS proposed eliminating risk corridors which would have eliminated the need for risk share settlements entirely.

2. Stop loss programs

c. EOHHS recognizes that the stop loss payments resulted in additional manual payments, creating risk of error. As a result, in FY22, EOHHS eliminated its Hepatitis C stop loss program and its organ transplant stop loss program eliminating manual payments made by the state to the MCOs. However, stop loss programs will remain where necessary; specifically, there will be a COVID vaccine "non-risk" stop loss program where the state pays the full amount of vaccine administration reimbursement back to the MCO.

3. Limiting manual capitation payments

d. EOHHS recognizes that retroactive capitation payments can result in additional manual payments, creating risk of error. For premiums paid monthly, the MMIS can systematically correct payments made within a three-month window – retroactively for the prior month, the current month, and prospectively for the future month. For capitation paid daily (RiteCare), corrections can only be systematically made within a two-month window – for the current month and prospectively for the future month. However, within the last year for both program types (daily and monthly) new processes have been incorporated into the MMIS to allow for systematic adjustments to payments retroactively in two scenarios; 1) based on a Newborns Date of Birth and; 2) based on a recipients Date of Death. These two scenarios contributed to the highest number of retroactive adjustments aside from rate changes. Any corrections outside of the systematic adjustment windows or aside from the Newborn and Death causes still must be processed manually unless additional system modifications are done.

In an effort to limit system modifications but further reduce manual payments, throughout FY20, EOHHS developed an internal MCO contract project charter and workgroup with the express goal of ensuring that our contract amendments and MCO capitation rates would be completed timely and ensure that MCO rates are in the system at the start of the year, or soon thereafter to minimize any manual payments.

However, in FY21, there was a delay in the state budget enactment that led to a delay in the final FY21 rates that was out of EOHHS' control and resulted in large manual payments.

Note that some states input new fiscal year rates without final state budgets or signed contracts, but EOHHS has assessed that this creates its own risk and that the current approach is preferred.

Anticipated Completion Date: *Ongoing*

Contact Person: *Katie Alijewicz, Deputy Medicaid Program Director, Finance*
Katie.Alijewicz@ohhs.ri.gov

Finding 2021-004 ***(material weakness – repeat finding – 2020-005)***

SYSTEM PAYOUTS AND MANUAL DISBURSEMENTS BY THE MEDICAID FISCAL AGENT

The Executive Office of Health and Human Services (EOHHS) authorized more than $170 million in disbursements (system payouts and manual payments) and $85 million in system recoupments during fiscal 2021. This financial activity represents transactions outside of the normal claims processing functionality of the Medicaid Management Information System (MMIS). While these types of payments are necessary within Medicaid, the reporting and internal control processes relating to these types of disbursements and recoupments are manual and external to other established control procedures. Such amounts are not easily identified or quantified by the MMIS.

Criteria: Management is responsible for establishing and maintaining internal control over financial reporting to ensure accurate and complete reporting of transactions in accordance with generally accepted accounting principles. Such processes should support the validity and accuracy of all payments made by the fiscal agent, the completeness of reported program activity, and to ensure compliance with federal regulations for allowable cost principles and activities allowed or unallowed.

Condition: The MMIS lacks formalized reporting that details system payouts, manual disbursements, and system recoupments. To the extent that system payouts and recoupments net with current claims processing activity, these transactions result in net cycle activity being posted to the State accounting system which is the basis for the State's financial and federal reporting functions. When system payouts and recoupments relate to prior period activity, the netting with current period claiming distorts financial reporting. This can negatively impact both financial reporting and federal reporting for the Medicaid and CHIP programs.

EOHHS has several options to initiate non-claims processing financial activity (i.e., system payouts, manual payouts, system recoupments, and payments through the State accounting system). Policies should be formalized to identify the financial transaction type that best aligns with the nature of the transaction. For example, disbursements for prior-year managed care activity should be made by a manual payment that is recorded independently in the State accounting system rather than a system payout that nets the activity against current capitation payment processing. Yet, a recoupment of an advance made in the prior month is more efficiently accomplished through a system recoupment since they relate to the same financial period (quarter or fiscal year). This consideration should involve consultation with the Office of Accounts and Control to ensure proper financial accounting for the transaction.

The State should ensure that its next MMIS can provide improved processing and accounting for non-claims based payments. New processes should improve the transparency and reporting of the underlying transactions while ensuring that controls are in place to ensure that they are accurately recorded for financial reporting and federal reporting purposes.

Cause: System payouts and recoupments often net prior period financial activity with current claims processing activity which can result in misstatements to financial and federal reporting. Insufficient system reporting for system payouts and recoupments increases the risk that material transactions are not identified that require reporting as prior period activity on federal reports and for financial reporting. To the extent that system payouts are not individually recorded in the State Accounting System increases the risk that these transactions are not accounted for properly for financial reporting since they by-pass the State's centralized review procedures designed to ensure that transactions are recorded in the correct accounts and reflected in the correct fiscal period.

Effect: Errors or omissions in financial reporting and federal noncompliance are possible effects of this control deficiency.

RECOMMENDATIONS

2021-004a Adopt policies that formalize the financial transaction type that best aligns with the nature of the transaction.

2021-004b Develop comprehensive reporting for system payouts, manual disbursements, and system recoupments to improve the transparency of these transactions processed by the Medicaid fiscal agent.

2021-004c Improve controls over non-claims based financial transactions in the next MMIS to provide for individual reporting and proper financial accounting treatment of non-claims based financial transactions.

Management's Views and Corrective Actions:

2021-004a - EOHHS will create a Manual of Standard Operating Procedures that crosswalks the list of financial transaction types and reason codes with scenarios when they should be used. EOHHS will also create new financial transaction and reason codes for scenarios where a transaction or reason code doesn't yet exist.

2021-004b - EOHHS and the fiscal agent implemented in December 2019 a monthly report recapping all Fiscal Agent Control Notes (FACNs) processed that month. EOHHS Finance also maintains a monthly log of all FACNs it approves, capturing all pertinent data, and reconciles this log with the fiscal agent's monthly FACN report. Any discrepancy is promptly researched and resolved.

EOHHS intends to implement "ServiceNow" with their fiscal agent for the purpose of more formally tracking FACN type requests in addition to system issues, incidents, modifications and other types of requests. This tool will eliminate the FACN process as it is defined presently. To the extent that additional codes are needed to clarify the nature of various transactions, EOHHS will work with the fiscal agent to establish and utilize these new codes on a go-forward basis within the new ServiceNow tool.

2021-004c - The MES Planning Vendor (contract to begin ~4/1/22) will be tasked with evaluating the existing MMIS processing financial transactions and reason codes and will be conducting business needs assessments. These details will be incorporated into the RFPs for replacement systems that will perform in alignment with Rhode Island-specific needs and/or have the flexibility to achieve the Programs' objectives in these areas.

Anticipated Completion Date: *Ongoing*

Contact Person: *Katie Alijewicz, Deputy Medicaid Program Director, Finance*
Katie.Alijewicz@ohhs.ri.gov

Finding 2021-005 ***(material weakness - repeat finding – 2020-006)***

COMPREHENSIVE DOCUMENTATION OF THE STATE'S INTERNAL CONTROL STRUCTURE

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.

Background: The State's management has responsibility for the design and operation of internal control. The Committee of Sponsoring Organizations (COSO) has designed a framework for internal control that consists of three categories of objectives – *operations, reporting, and compliance* – and five components – *control environment, control activities, risk assessment, information and communication, and monitoring*. The Government Accountability Office's "Green Book" - *Standards for Internal Control in the Federal Government* tailors this conceptual framework to the public environment. The "Green Book" is required for federal agencies and is useful to other governments when applying the principles of an internal control framework.

Criteria: An internal control framework, such as COSO and/or the Green Book, provides an overall structure for management to design, document, and monitor its internal control policies and procedures. Both within and outside government, management has responsibility for the adequacy of design and operation of an entity's control structure.

Condition: While certain control policies and processes have been documented, there is a lack of formalized documentation and comprehensive internal control structure throughout State government that complies with an accepted framework such as COSO and/or the Green Book. Opportunity exists for a coordinated effort to implement the revised internal control framework and to reassess the design of its current control structure (both statewide and at the individual agency level) with emphasis on risk assessment and monitoring - both essential components of internal control. As the State considers implementing a fully integrated ERP system, which will likely include modification of certain processes and related controls, opportunities exist to evaluate and document amended control procedures consistent with the internal control framework.

Cause: Management focus, training and implementation resources have been insufficient to ensure that departments and agencies are adequately documenting their internal control structures inclusive of all elements.

Effect: Control weaknesses could exist and go undetected either through inadequate design or through noncompliance resulting from insufficient monitoring.

RECOMMENDATIONS

2021-005a Commit additional resources to training and implementation materials to ensure that departments and agencies are adequately documenting their internal controls to reflect an understanding of its required elements in accordance with an acceptable framework such as COSO or the Green Book.

2021-005b Implement an internal control assessment and documentation effort to coincide with the implementation of a fully integrated ERP system.

Management's Views and Corrective Actions:

Management agrees the state lacks formalized documentation and a comprehensive internal control structure statewide that complies with an accepted framework. The Office of Accounts & Control (A&C) has hired an Administrator, Financial Management to commit resources to training and developing implementation ("best-practice") materials to be communicated to departments and agencies. Further, the ERP system is moving forward, with a vendor scheduled to be selected before fiscal year end, which brings the opportunity to embed internal controls within the software applications. A&C is exploring the use of an RFI to determine if assistance from an outside firm is a viable option to onboard for expertise with documenting the entity's internal control structure. In addition to developing training materials and potentially implementation resources, A&C will be requesting management to commit time and resources to assist in designing, implementing, and maintaining an effective internal control system at each respective agency.

Anticipated Completion Date: *Ongoing*

Contact Person: *Alex Herald, Administrator of Financial Management*
Office of Accounts and Control
alexander.herald@doa.ri.gov

Finding 2021-006 ***(significant deficiency - repeat finding - 2020-007)***

EVALUATION OF CONTROLS OVER FUNCTIONS PERFORMED BY EXTERNAL PARTIES

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 provided by the external parties. These improvements are necessary and consistent with management's responsibility for the overall adequacy of the design and operation of internal control.

Background: SOC reports are provided by service organizations to assure customers/clients that controls are sufficiently designed and in operation over relevant activities. Management of the user entity should use these reports as part of their overall consideration and documentation of the adequacy of the design and operation of internal control.

Criteria: Management has responsibility for the adequacy of design and operation of an entity's control structure including functions performed by external parties.

Condition: The State has made progress by training employees and implementing a uniform SOC report assessment tool to document the consideration of controls at its service organizations. Further training and monitoring are needed to ensure all SOC reports are appropriately and consistently evaluated. Additionally, the State must ensure that relevant complimentary user entity (State) controls identified by service organizations are also in place and operating effectively.

When SOC reports identify exceptions, evaluation of such matters must be timely and thorough. Any highlighted deviations in control testing that may result in a qualified opinion regarding the design and effectiveness of certain control procedures at the service organization, as well as complementary user entity control considerations should be documented, reviewed, and thoroughly vetted. For fiscal year 2021, documentation support obtained by the State departments utilizing the service organization was incomplete regarding the evaluations of the exceptions and the impact on the State's overall control procedures.

Continued training is recommended along with monitoring and follow-up with departments and agencies.

Cause: The lack of comprehensive documentation and consideration of controls at service organizations that perform critical functions for State government represent a weakness in internal control over financial reporting.

Effect: Many functions performed by external parties are material to the State's overall operations. Deficiencies in the design or operation of controls at service organizations could materially impact the State's overall controls over financial reporting and compliance.

RECOMMENDATIONS

2021-006a Enhance training and monitoring to ensure compliance with newly implemented SOC report evaluation procedures.

2021-006b Ensure that relevant complimentary user entity (State) controls identified by service organizations are also in place and operating effectively.

2021-006c Ensure exceptions and auditor report modifications included in SOC reports are evaluated timely and documented regarding the impact on the State's overall control procedures.

Management's Views and Corrective Actions:

The Office of Accounts and Control (A&C) agrees with the above finding.

2021-006a – A&C is developing a refresher to the training and guidance provided to agencies during June 2021. The June 2021 training was comprehensive to the SOC reporting process and we believe it can be utilized again in conjunction with an updated assessment tool and detailed instructions to improve the overall state agency evaluation and compliance of SOC reports. A&C is working to finalize a new assessment tool entitled "SOC Report Review" which will replace the current checklist. The SOC Report Review will improve upon the current checklist by expanding the key information areas to a more detailed documentation of the *review of SOC reports by the agencies. The SOC Report Review is the responsibility of the applicable agency CFO and must be completed and returned to A&C along with the relevant SOC Report.*

In addition to the above, A&C has designated an FTE to be a resource to the agencies throughout the year regarding SOC training, evaluation requirements, and comments and questions. This will help ensure agencies have an appropriate resource available.

2021-006b - Within the new SOC Report Review tool and its related training, there is detailed instructions and information to assist agencies in documenting their responses to complimentary user entity (State) controls listed in the SOC report. This tool includes a section titled Complimentary User Entity Controls that requires the CFO to list each complimentary user entity (State) control and respond with the agency's relevant controls and/or processes.

2021-006c - As in prior year training, the new SOC Report Review training will include information to assist agencies with their review of exceptions and/or modifications noted in the SOC reports. The sections of the SOC Report Review dealing with auditor report modifications (titled 'Qualifications on Control Objectives') and/or exceptions (titled 'Deviations noted') will assist the CFO reviewer by providing guidance to ensure they review any exceptions or modifications and appropriately respond to each one. The completed SOC Report Review will provide the A&C assurance the CFOs are reviewing the SOC report appropriately and timely.

To further ensure the SOC reports are evaluated in a timely fashion and that proper documentation is provided regarding the impact on the State's control process, agencies are encouraged to request and review SOC reports as soon as they are available and to reach out to A&C with any questions and comments as they prepare their SOC Report Review. As mentioned above, A&C has designated an FTE position to be a resource to the agencies for any questions, comments, etc. that may arise in their review of their relevant SOC Report.

Anticipated Completion Date: *September 30, 2022*

Contact person: *Alex Herald, Administrator, Financial Management*
Office of Accounts and Control
alexander.herald@doa.ri.gov

Finding 2021-007 **_(significant deficiency - repeat finding – 2020-008)_**

MONITORING RIFANS ACCESS PRIVILEGES AND AGENCY APPROVAL HIERARCHIES

Background: Authorizing and monitoring access to RIFANS, the State's centralized accounting system, is a key control over financial reporting. Access roles for all RIFANS users are assigned and controlled through unique passwords. Ensuring access is consistent and appropriate with each individual's responsibilities is an important control process. Individuals with "Super User" access require specific monitoring procedures due to their unlimited system access and the ability to potentially override established control procedures.

> The State can enhance certain system access controls within the RIFANS statewide accounting system.

Criteria: Controls over system access by users and system administrators is critical to ensure that transactions in RIFANS are properly authorized and recorded for financial reporting purposes.

Condition: The State's lack of adequate monitoring of user and administrator access represents a collective weakness in internal control over financial reporting. There are three distinct, but interrelated areas where the State can improve its monitoring of RIFANS access privileges by implementing reporting functionalities that allow for the periodic review of RIFANS user and administrator access:

- *RIFANS "Super Users"* - Activities of individuals with system administrator or "super user" roles are logged but not reported and reviewed by qualified personnel. These individuals have unlimited access to RIFANS functions and data. Consequently, any RIFANS transactions or activity initiated by system administrators should be monitored. The Division of Information Technology's (DoIT) policies and procedures require the activities of privileged users (system administrators) be logged by the system and reviewed for appropriateness by assigned personnel.

- *Agency Hierarchies* - Access roles for all RIFANS users are controlled through unique passwords. These roles, which are assigned based on job functions and responsibilities, permit access to various system capabilities. Agency hierarchies allow specific transaction types and dollar authorization limits. Other transaction-specific authorization controls are managed through workflow paths within RIFANS. The Office of Accounts and Control (Accounts and Control) is responsible for the design and control of system access by RIFANS users. This "blueprint" of the RIFANS control structure is periodically documented through hierarchies detailing access and approval flows for each department or agency and system workflows documenting the routing of certain types of transactions.

- *RIFANS Delegated Authority* - RIFANS users may delegate their authority to other users in certain situations (e.g., vacation rules). The State implemented a policy that restricts employees from delegating their authority to others with a lower level of authority and requiring notification of the delegation to Accounts and Control in certain circumstances.

The State created a report designed to monitor changes to the agency hierarchies, authorization thresholds, and other select data fields; however, there were no procedures in place requiring periodic review of the report by DoIT IT Security personnel who possess sufficient knowledge of the IT security protocols to monitor "super user" activity. Further refinements to the report are required to capture all "super user" activity on the system. For example, there are no existing system-enforced policies restricting "super users" from effecting changes to their own level of access or authorization levels.

In conjunction with our audit testing, we noted instances where individuals were granted general ledger approval authority inconsistent with requested access, sometimes at significantly higher levels and longer periods of time than intended. These inconsistencies went undetected and uncorrected during the subsequent review of the 'Super User' report. In other instances, we noted that approval of access was not documented if the individual was replacing another with previously approved access. Additionally, the system workflows, which route transactions centrally following agency approval, were not properly documented and in some instances were operating inconsistent with established policies set by the Office of Accounts and Control.

Cause: The State did not have sufficient reporting to allow for comprehensive "super user" access monitoring during fiscal 2021. Additionally, the largely manual administration of system access for RIFANS which has a large volume of users diminishes effective controls over system access. The State should ensure the new ERP system being selected contains robust functionality to manage and document user access controls and authorization levels including the activities of super users.

Effect: Potential for unauthorized transactions being recorded in RIFANS.

RECOMMENDATIONS

2021-007a Enhance current procedures for reviewing the activities of "super users" (including system administrators) on a scheduled basis to ensure that additions, modifications, and deletions initiated by them are appropriate. Ensure that current documentation of system access and transaction workflows is current and that all access is granted or terminated with appropriate approval.

2021-007b Ensure the new ERP system being procured contains robust functionality to manage and document user access controls and authorization levels including the activities of super users.

Management's Views and Corrective Actions:

2021-007a - Procedures were implemented during FY 2021 to address this issue by the Office of Accounts and Control (A&C) and the Division of Information Technology (DOIT); additional reporting was implemented at this time. The Rhode Island Access Auditing (audit trail) and General Ledger (GL) Authorization Limits Report is reviewed by A&C staff monthly. DOIT also purchased monitoring software *which is used for software systems with critical data. This was to be tested on RIFANS. However, due to incompatibility with our version of the RIFANS OS, the software was not implemented. DOIT is looking at upgrading the OS to a compatible level with this software.*

Anticipated Completion Date: *December 2022*

2021-007b: The selected software will be a cloud hosted SaaS solution which will have enhanced security features. The RFP for the ERP solution is expected to be awarded May 2022.

Contact Persons:
Alan Dias – Assistant Director Information Technology
alan.dias@doit.ri.gov
Michelle Goncalo – Supervising Accountant
Office of Accounts and Control
michelle.goncalo@doa.ri.gov

Finding 2021-008 **(significant deficiency – repeat finding – 2020-009)**

COMPREHENSIVE GENERAL LEDGER CONTROLS OVER RECEIVABLES

Statewide accounting controls over receivables should be enhanced.

Background: Revenues are collected at many points throughout the State and, in many instances, due to volume and complexity (e.g., tax revenues), independent systems must be maintained to control and account for those revenues and related receivables.

Currently, general ledger balances are adjusted at fiscal year-end to match the summary balances reported by the various revenue collecting agencies. Long-term receivables, which are included in the State's government-wide financial statements, are typically recorded, and then reversed each year without a "permanent" general ledger or subsidiary ledger detail record of such amounts.

The lack of an integrated revenue and receivables functionality within the RIFANS accounting system requires that receipts/revenue be recorded via journal entry transactions (directly to the general ledger). Typically, receipts/revenue would be recorded in a separate module with expanded functionality that would interface with and post information to the general ledger.

The Office of Accounts and Control has added certain receivable categories to an existing revenue/receivables module that is part of RIFANS. However, since that module is more designed to track receivables on a unique customer basis, it does not easily match the need to control receivables within the State's various subsidiary systems (e.g., tax receivables). Other options need to be considered to meet the State's comprehensive control objectives for receivables, given the complicated and decentralized nature of revenue collection points throughout the State.

Criteria: Controls are enhanced when there are effective general ledger controls over all receivable balances with periodic reconciliation to detailed subsidiary accounts receivable systems. Additions and reductions (receipts) of receivables should be recorded in aggregate at the general ledger level with the detailed recording at the customer/taxpayer level within the various subsidiary receivable systems.

Condition: The State must enhance its comprehensive general ledger controls over amounts owed to the State. Receivable balances are generally maintained by the revenue-collecting department or agency (e.g., Division of Taxation, Courts, and Department of Environmental Management). Summary balances are only reported annually to the Office of Accounts and Control for inclusion in the State's financial statements. The effectiveness of receivable recording at year-end is dependent upon agencies fully reporting balances to the Office of Accounts and Control and procedures performed by Accounts and Control to identify possible omissions. This manual process provides a level of compensating control but is susceptible to omission. Accounting and monitoring controls over the State's receivables in aggregate are limited.

Cause: Inadequate general ledger controls over accounts receivable.

Effect: Potential for misstatement or omission of accounts receivable and related revenue in the State's financial statements.

RECOMMENDATION

2021-008 Ensure the statewide ERP system in procurement includes appropriate and integrated revenue/receivable functionalities.

Management's Views and Corrective Actions:

Management agrees with this finding. The requirements noted in the RFP for the new integrated ERP system requires a financial system which includes a receivable module which will account for all non-tax related receivables.

Anticipated Completion Date: *June 30, 2025*

Contact Person: *Sandra Morgan, Assistant Director for Special Projects*
Office of Accounts and Control
sandra.morgan@doa.ri.gov

Finding 2021-009 ***(material weakness – repeat finding – 2020-010)***

CONTROLS OVER FEDERAL PROGRAM FINANCIAL ACTIVITY

> 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) claimed expenditures on federal reports are consistent with amounts recorded in the State's accounting system.

Background: Federal programs represented 49% of fiscal 2021 General Fund expenditures. Financial reporting risks include categorizing expenditures as federally reimbursable when grant funds have either been exhausted or the expenditures do not meet the specific program limitations. Further, the State can improve its overall centralized monitoring of federal program operations to ensure compliance with federal requirements.

Some federal grants are open-ended entitlement programs where the federal government will reimburse the State for all allowable costs incurred under the program. Other federal grants are limited by a specific award amount and grant period. These grant periods are often for the federal fiscal year and are not aligned with the State's fiscal year.

Criteria: Federal revenue and expenditures recorded by the State must be consistent with the limitations of grant awards from the federal government and claimed expenditures on federal reports must be consistent with amounts recorded in the State's accounting system.

Condition: Knowledge of grant requirements, spending authorizations, and limitations on reimbursable expenditures all rests with departmental managers who administer the federal grant programs. The Office of Accounts and Control, in preparing the State's financial statements, relies primarily on the coding of expenditures (by funding source – federal) within the RIFANS accounting system. All expenditures recorded in federal accounts are considered reimbursable from the federal government and federal revenue is recorded to match those expenditures. From an overall statewide perspective, controls over financial reporting are ineffective to ensure that all federal expenditures are reimbursable and federal revenue is recognized appropriately.

The Office of Accounts and Control requires departments to complete a Federal Grants Information Schedule (FGIS) to reconcile RIFANS program activity with amounts drawn and claimed on federal reports. The FGIS process is not effective and there is no other statewide control measure to ensure that grant expenditures do not exceed available award authority.

The State's RIFANS accounting system does not meet the State's needs in three important and interrelated areas – time reporting/payroll, grants management, and cost allocation – all functionalities that are integral to management of federal programs. These functions are currently performed independent of RIFANS and generally through multiple departmental systems - most of which are duplicative and utilize old and sometimes unsupported technology.

Cause: Sufficient controls have not been implemented within the statewide accounting system to ensure amounts are consistent with the limitations of grant awards from the federal government and claimed expenditures on federal reports are consistent with amounts recorded in the State's accounting system; however, the current FGIS process is ineffective.

Enhanced statewide accounting functionalities that support time reporting/payroll, grants management, and cost allocation are being contemplated through the strategic plan initiative which recognizes the need for a grants management component within the overall planned ERP implementation.

Effect: Federal revenue could be overstated and not detected for financial reporting purposes. The share of program costs allocable to funding sources (e.g., general revenue vs. federal) could be misstated.

RECOMMENDATION

2021-009 Implement controls to ensure that the allocable share of federal program expenditures is consistent with grant award limitations. Reassess the current FGIS process with the goal of enhancing compliance and effectiveness.

Management's Views and Corrective Actions:

Management agrees with this finding. The ERP strategic plan includes both a Grants Management System and a Time & Attendance Module as part of a larger ERP system. These components, along with the other functionality in the ERP and Grants Management System, will address the control weaknesses discussed above. The Grant Management System component is currently under development and the larger ERP project is anticipated to begin June 2022.

Anticipated Completion Date: *January 2023 for Grants Management System and TBD for Time and Attendance Module as part of the larger ERP system.*

Contact Persons: *Dorothy Pascale, State Controller*
dorothy.z.pascale@doa.ri.gov
Steve Thompson, Director, Grants Management Office
steve.thompson@omb.ri.gov
Office of Accounts and Control

Finding 2021-010 ***(significant deficiency – new finding)***

CONTROLS OVER DEBT-RELATED ACCOUNTING ENTRIES

The State can improve controls over the use of the DBC Debt Manager system to support debt-related accounting entries.

Background: The State uses the DBC Debt Manager system as a subsidiary ledger to account for long-term debt obligations and related costs. DBC has reporting functionalities that are used to support the manual journal entries prepared by the Office of Accounts and Control that are necessary to reach the appropriate year-end balances for outstanding debt and related deferred costs.

Criteria: GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities* states that "[f]or current refundings and advance refundings resulting in defeasance of debt reported by governmental activities, business-type activities, and proprietary funds, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter." The net carrying amount is further defined as "the amount due at maturity, adjusted for any unamortized premium or discount related to the old debt, as well as any deferred outflows of resources or deferred inflows of resources associated with a derivative instrument that is an effective hedge of the old debt."

Condition: In April 2021, the State issued approximately $87.7 million of general obligation bonds to advance refund $80.7 million of outstanding general obligation bonds. Due to errors in the timing of reports obtained from the DBC Debt Manager system, the journal entries to record the defeasance, including the calculation of deferred amounts on refunding and the change in the balance of bond premiums, were in error. Prior to audit adjustment, deferred premiums were overstated by approximately $5.0 million, deferred outflows of resources related to the April 2021 advance refunding were overstated by approximately $5.5 million, and amortization of deferred refunding costs were overstated by approximately $119,000 at June 30, 2021.

Cause: Errors in the timing of reports obtained from the DBC Debt Manager system resulted in incorrect journal entries to record the defeasance, including the calculation of deferred amounts on refunding and the change in the balance of bond premiums.

Effect: A material audit adjustment was required to correct year-end balances of long-term debt obligations (net of premiums and/or discounts) and deferred outflows of resources.

RECOMMENDATIONS

2021-010a Run all DBC reports for year-end related balances with a June 30 effective date to ensure all transactions are accurately captured in the reports.

2021-010b Research additional report functionalities within DBC to summarize fiscal year beginning and ending balances of unamortized premiums.

Management's Views and Corrective Actions:

The Office of Accounts and Control (A&C) agrees with the findings. A&C will ensure all DBC reports used for year-end debt entries will be as of June 30th. A&C also reached out to DBC regarding additional reporting available within the system. A report does exist for a summary of premiums and discounts; however, A&C will need to add in additional information from past bond issuances to make it complete. Currently DBC does not have the capability to calculate and report on the gain or loss from refunding, but with improved reporting for premiums and discounts, the risk of calculation error is minimized.

Anticipated Completion Date: *June 30, 2022*

Contact Person: *Susan DeStefanis, Supervisor Financial Management & Reporting, Office of Accounts and Control*
susan.destefanis@doa.ri.gov

Finding 2021-011 ***(significant deficiency – new finding)***

STATE PROCUREMENT PROCESS AND SUPPORTING DOCUMENTATION

The Division of Purchases (Purchasing) should improve enforcement of procurement documentation requirements in accordance with State purchasing regulations. Our audit noted documentation deficiencies for certain procurements included in our sample.

Background: The Chief Purchasing Officer and State Purchasing Agent are responsible for ensuring that procurement is conducted in a competitive manner (when possible) and compliant with state procurement laws, regulations, rules, codes, and procedures.

Criteria: All determinations regardless of procurement method are to be in writing and based upon written findings of fact and retained in the purchasing file ***(G. L. § 37-2-6).***

Condition: All procurements are required to have the basis of determination documented. In conjunction with the audit of the State's financial statements, we noted certain instances where required forms were incomplete, absent, or lacked required Purchasing approvals. We also noted where certain procurements were deemed sole source (only one reasonable source for the required goods or services existed), however, the justification as to how it was determined to be the only practical vendor was lacking. In these limited instances, inadequate documentation prevented a complete evaluation of sampled procurements for compliance with State purchasing regulations.

Cause: Controls over required documentation being maintained in purchasing files need to be improved. We observed more procurement documentation deficiencies in fiscal 2021 compared to prior years, which may be attributable, in part, to pandemic-induced remote work.

Effect: Potential noncompliance with procurement documentation requirements mandated by RI General Laws.

RECOMMENDATION

2021-011 Reinforce policies, procedures, and controls to ensure that required procurement documentation is maintained in accordance with State policies and procedures.

Management's Views and Corrective Actions:

During State fiscal year 2021, the Division of Purchases shifted to a full telework model for a period of several months in accordance with guidelines and recommendations in relation to the COVID-19 pandemic. Prior to the pandemic, the majority of centralized procurement processes in the Division of Purchases were paper-based (including documentation and file-related recordkeeping); out of necessity and due to the emergency circumstances, the Division shifted to a hybrid electronic/paper file model as an interim measure. Accordingly, the Division instituted short-term policies and procedures with respect to documentation and electronic signature requirements for procurement files, including an approach by which the Purchasing Agent/Deputy Purchasing Agent would record their review and approval of procurement requests in the electronic audit trail in RIFANS instead of via hard copy or electronic signature.

CORRECTIVE ACTIONS: The State's eProcurement system, Ocean State Procures, now serves as the primary recordkeeping and file management system for all State Master Price Agreements and centralized procurements during a transitional period in which we are shifting from the previous paper-based recordkeeping system. The Division of Purchases has implemented an electronic documentation process and structure to align with the requirements of the State Purchases Act and ensure that files are complete and appropriately documented, including an internal practice requiring verified electronic signatures on all procurement determination forms and related documentation.

There is a multi-layered approach to file handling and management in the Division of Purchases that includes at least two separate staff positions who are responsible for verifying completeness and accuracy of documentation prior to processing final requests in the respective procurement systems. Additionally, Division staff utilize a file maintenance checklist to ensure that all documentation is complete and accounted for with respect to individual contracts and procurements. As a last step to ensure compliance with all policies, procedures and applicable authority, the Purchasing Agent/Deputy Purchasing Agent performs a final review of all procurement requests and corresponding files prior to issuing approval of documentation and separately, approval of the electronic request in RIFANS. This multi-pronged review process continues with all Ocean State Procures files.

Anticipated Completion Date: *Current state solutions described above have been fully implemented. The only ongoing component with respect to identified corrective actions is transitioning over to a fully electronic recordkeeping process. As this is heavily dependent upon Statewide agency adoption of the eProcurement system, a fully realized transition may take up to several years.*

Contact Person: *Amanda Rivers, Deputy Purchasing Agent*
Division of Purchases, Department of Administration
amanda.m.rivers@purchasing.ri.gov

Finding 2021-012 ***(significant deficiency – new finding)***

PREPARATION OF THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

> Procedures for recording transactions included in the government-wide financial statements can be improved.

Background: The State accounting system maintains distinct accounting records to support the preparation of the government-wide (full accrual) financial statements. The full accrual set of books is populated through consolidation entries of the monthly activity from the modified accrual set of books, capital asset transactions throughout the fiscal year, and conversion entries to record noncurrent assets and liabilities and to reclassify fund-level activity as needed.

Criteria: Trial balances from the accounting system should not require significant modification to generate accurate financial statements. Controls should be operational to ensure that all transaction activity is recorded in both sets of books and required adjustments and updates are consistently made. Preparation of the government-wide financial statements should include adequate review to ensure results are consistent with expectations.

Condition: The fiscal 2021 draft government-wide financial statements required substantial adjustment prior to finalization. Some of these audit adjustments were significant and duplicated prior adjustments made to the governmental fund financial statements.

There are no procedures in place to review and reconcile the consolidation entries for accuracy and completeness. Consolidation of modified accrual transactions to the full accrual set of books resulted in immaterial but problematic variances in fiscal 2021. These differences were not identified by the Office of Accounts and Control prior to the preparation of government-wide financial statements.

Reconciliations, included as a required component of the basic financial statements, identify and explain the differences between the government-wide and fund level financial statements. These reconciliations are not prepared timely nor sufficiently detailed to detect or prevent misclassifications.

Due in part to time limitations, the draft government-wide financial statements were not sufficiently reviewed for consistency with expectations and to identify errors or misclassifications.

The State should consider the potential benefits of implementing a different conversion model in preparing the government-wide financial statements compared to the current method of preparation.

Cause: There is a high level of reliance placed upon system-reported accounting data without adequate analysis of the results or other procedures to ensure that required adjustments and changes are made consistently and accurately between the two sets of books.

Effect: Without the required audit adjustments, the State's financial statements could have been materially misstated.

RECOMMENDATION

2021-012 Enhance procedures for preparing the government-wide financial statements to ensure consistent and accurate recording of transaction activity. Consider adapting procedures to integrate the conversion method of preparation.

Management's Views and Corrective Actions:

The Office of Accounts and Control (A&C) agrees with the finding and will improve the process and review of the Entity-Wide Financial Statements. Additionally, A&C will review the newer process during the implementation of ERP with the intent to further improve controls and accuracy of conversion methods.

Anticipated Completion Date: *December 31, 2022, and June 30, 2026*

Contact Persons: *Tara Mello, Associate Controller*
tara.m.mello@doa.ri.gov
Dorothy Pascale, State Controller
dorothy.z.pascale@doa.ri.gov

Finding 2021-013 ***(significant deficiency – new finding)***

RECONCILIATION OF CORONAVIRUS RELIEF FUND AND CONTROLS TO ENSURE EXPENDITURES WERE NOT REIMBURSED FROM MULTIPLE FEDERAL FUNDING SOURCES

Background: The State received an unprecedented amount of federal assistance to respond to the effects of the global pandemic including $1.25 billion for the Coronavirus Relief Fund (CRF) pursuant to the CARES Act. Certain costs were reimbursable under multiple programs and federal guidance was continually evolving which resulted in changing direction as to costs to be applied to specific federal awards. In fiscal 2021, the State expended approximately $967 million in CRF funds. CRF funds were reflected as unearned revenue until expended for valid purposes.

> A variance of $2.5 million existed between the balance of the unexpended CRF and the total federal award less expenditures through June 30, 2021. Reconciliations should be completed to ensure eligible expenditures were not reimbursed from more than one funding source.

Criteria: An eligible program cost can only be reimbursed from one federal award. A reconciliation should be completed to demonstrate that qualifying expenditures were only reimbursed from one federal award.

The balance of the unexpended CRF should be equal to the original federal award less cumulative CRF expenditures.

Condition: There was an unreconciled difference between the residual balance in the CRF escrow liability account and total cumulative expenditures recorded for CRF as of June 30, 2021. Prior to audit adjustment, the difference totaled $2.5 million.

Controls were also insufficient to ensure that costs were not reimbursed from more than one federal award. Reconciliations to adequately identify any potential duplicate reimbursement are incomplete.

Cause: Due to the rapid response required during the pandemic, the existence of multiple federal funding sources, and continually evolving federal guidance, costs were moved in the accounting system to various funding sources which increased the risk that a cost could be reimbursed from more than one federal award.

Effect: Potential misstatement of CRF and other federal program reported expenditures.

RECOMMENDATIONS

2021-013a Resolve unreconciled differences between CRF expenditures and activity in the CRF unearned revenue account

2021-013b Complete reconciliations to demonstrate that eligible COVID program costs were not reimbursed from more than one federal funding source.

Management's Views and Corrective Actions:

The Office of Accounts and Control (A&C) agrees with the finding. Agencies along with a third-party consultant are reviewing and reconciling COVID stimulus grant transactional data to ensure eligibility and recording of expenditures were proper. The resulting adjusting entries and supporting documentation of this exercise will be provided to A&C and shared with the Office of Auditor General. A&C has also identified transactions causing differences between CRF expenditures and the unearned revenue account. These transactions will be adjusted and properly reflected in the FY22 financial statements.

Anticipated Completion Date: *June 30, 2022*

Contact Person: *Dorothy Pascale, State Controller*
dorothy.z.pascale@doa.ri.gov

Finding 2021-014 ***(significant deficiency – new finding)***

ACCOUNTING FOR COMPENSATED ABSENCE LIABILITIES

Background: Liabilities for compensated absences (e.g., accrued vacation, sick and compensatory time) must be reported on the State's full accrual financial statements.

Criteria: Liabilities must be measured at the balance sheet date reflecting employee balances for accrued but unused leave using current salary rates. An estimate of the current vs. long-term portion of the liability is needed for presentation on the Statement of Net Position.

> The process to record the liability for compensated absences can be enhanced by using a combination of actual data when readily available and estimates where appropriate.

Condition: Calculation of the compensated absence liability involves a large volume of employee specific data and requires estimates for amounts only paid at retirement (unused sick leave) for eligible individuals, as well as when the liability will be relieved by discharge of time by the employees. Additionally, during the pandemic employees could earn compensatory time and be eligible for payment in certain instances. The compensatory time balances are maintained independent of the statewide payroll system which accumulates other annual leave and sick time balances and consequently were not included in the liability calculation at June 30, 2021.

To streamline the calculations of these balances as part of the annual financial reporting process, the Office of Accounts and Control moved towards an estimation process whereby the liability is calculated as a percentage of annual payroll expense based on a five-year average.

A portion of the liability can be easily calculated using actual employee balances at fiscal year end and we recommend that actual data be used rather than estimated data for this portion of the liability. Estimates are appropriate for the portion of unused sick time that may be paid at retirement and for estimating both the current and long-term portions of the liability.

Cause: The State's outdated personnel and payroll systems limit the efficient calculation of the liability for compensated absences for financial reporting purposes.

Effect: Balances reported on the financial statements may not accurately reflect the State's liability for compensated absences.

RECOMMENDATIONS

2021-014a Utilize actual data to calculate the compensated absence liability when readily available and use estimates for the remaining portion (sick leave payable upon retirement and the current and long-term portions of the overall liability).

2021-014b Segregate the vacation and sick leave portions of amounts paid at retirement to facilitate developing reliable estimates of the liability for sick time eligible for payment at retirement.

Management's Views and Corrective Actions:

2021-014a: Management disagrees with this finding. The use of estimates is an allowable computation for compensated absences. Management's comparison of prior year calculations using actual versus estimate did not result in a material variance for financial statement presentation purpose. The recommendation above will put an administrative burden upon the staff and not result in a material difference in the presentation of the information.

2021-014b: Management agrees with this finding and will segregate vacation and sick leave compensated absence liabilities. The calculation of information for vacation and sick leave will be improved with the ERP system implementation.

Anticipated Completion Date: *June 30, 2022*

Contact Person: *Susan DeStefanis, Supervisor Financial Management & Reporting, Office of Accounts and Control*
susan.destefanis@doa.ri.gov

Finding 2021-015 **(significant deficiency – new finding)**

VOLUME OF ACCOUNTING SYSTEM JOURNAL ENTRIES

There is an excessive volume of journal entries recorded within the centralized accounting system. This volume weakens controls over the appropriate authorization and classification of expenditures and limits transparency regarding the underlying primary expenditure transactions.

Background: More than 10,000 journal entries were processed during fiscal 2021 in the RIFANS accounting system. An additional 35,000 journal entries were used to record receipts/revenues.

Criteria: Initiation and approval of journal entries is typically restricted to a small number of higher-level accounting staff to record specific financial reporting related entries or to make corrections.

Condition: The volume of journal entries continues to increase due to the inability of the current accounting system to allocate costs to multiple programs and activities. In addition, the significant increase in federal awards provided to address pandemic related costs increased the volume of journal entries as costs were moved to the most appropriate funding source.

Additionally, RIFANS lacks any receipt/revenue functionality and consequently, receipts/revenues are recorded through journal entries.

Journal entries typically are considered higher risk from an internal control perspective as approval level controls require understanding and appropriate review of complex transactions to be effective. As the volume increases the time to adequately review and approve what are often material transactions also increases which threatens the effectiveness of control procedures. The approval process is also dependent on various approval hierarchies which we have not found to be operationally effective (see Finding 2021-007). Additionally, see Finding 2021-017 *Material Audit Adjustments.*

Cause: Insufficient cost allocation functionality in the current accounting system necessitates a high level of journal entries to effect allocation of costs. Since accounting personnel in all departments and agencies need to process receipts through journal entries, the ability to initiate and approve journal entries is more widespread than would be typically seen in most large accounting systems.

As the State prepares to select an ERP system to replace RIFANS, one of the objectives should be to significantly reduce the volume of journal entries required to record and adjust financial activity.

Effect: Controls are weakened through the high volume of high-dollar transactions that are recorded through journal entries which increase the possibility that a misstatement could occur and not be detected in the normal course of operations.

RECOMMENDATIONS

2021-015a Ensure the statewide ERP (in procurement) includes appropriate cost allocation, including payroll distributions and an integrated revenue/receipt functionality to significantly reduce the volume of journal entries needed to maintain the accounting system and support financial reporting.

2021-015b Enhance review and oversight of material journal entries to ensure appropriate recording of transactions and to avoid misstatement of the financial statements.

Management's Views and Corrective Actions:

2021-015a - Management agrees with the finding. The recommendation regarding system capabilities to allocate costs will be addressed with the implementation of a new ERP system. The new system will be required to have functionality to allocate costs.

2021-015b - Management disagrees with this finding. The increase to the number of journal entries was a direct result of changing federal guidance and not related to payroll allocations. Although FY21 had an unusually large amount of adjusting journal entries due to the changing federal guidance about the use of and eligibility of stimulus funds, the controls over these entries were adequate. To further improve controls, Office of Accounts and Control created a specific methodology and process to address the movement of transactions between federal funding sources to allow the financial system to move the transactional level detail (not including payroll costs) in the financial system to improve oversight over these adjusting entries.

Anticipated Completion Date: *June 30, 2025 for ERP system.*

Contact Person: *Dorothy Pascale, State Controller, Office of Accounts and Control*
dorothy.z.pascale@doa.ri.gov

Finding 2021-016 ***(significant deficiency – new finding)***

THIRD-PARTY INSURER RECOVERIES FOR VACCINE ADMINISTRATION AND COVID TESTING

> Third-party insurance reimbursements for COVID testing totaling $3.2 million at June 30, 2021 are pending (1) credit to the federal government for previously reimbursed costs or (2) recognition as general revenues. Other third-party insurance recoveries that are in process have not been recognized as receivables, revenue, or amounts due to the federal government.

Background: The State implemented statewide COVID-19 testing in March 2020 in response to the public health emergency. Subsequently, the State began to seek reimbursement from health insurers for covered individuals. These reimbursement efforts have been identified and tracked manually. The State needs to improve controls over these receivables to ensure the accounting is appropriate and recoveries are credited to the original funding source (e.g., federal grants). Receivables for amounts billed to insurers are not currently recorded in the State's accounting system.

Criteria: Costs and expenditures should be recognized net of applicable credits. When recoveries are obtained for costs previously reimbursed by federal awards, amounts should be credited back to the federal government for its applicable share.

Condition: Receipts from third-party insurers for COVID testing were deposited in an escrow account pending research and a decision regarding how to credit the federal government for their proportionate share and the criteria to record general revenues, if any. The balance in the escrow account at June 30, 2021 totaled $3.2 million.

COVID vaccine administration during fiscal 2021 was complex due to costs shared in multiple arrangements including a vendor contract that provided for potential residual payment to the State if insurance recoveries exceeded the actual costs of vaccine administration. No estimate was made for potential insurance recoveries for vaccine administration.

Cause: COVID testing costs were reimbursed through at least three separate federal awards and consequently, determining the appropriate amounts to credit to each program was challenging. Vaccine administration was similarly funded by multiple sources.

Effect: Credits to federal programs have not been applied for third party insurer recoveries. Other amounts receivable from third party insurers may have not been recognized and reflected on the State's financial statements.

<u>RECOMMENDATIONS</u>

2021-016a Improve accounting controls over COVID-19 testing receivables to ensure completeness of billing and collections and appropriate crediting to the original funding source, where applicable.

2021-016b Assess any amounts due to the State for third-party reimbursement for vaccine administration or from contracts with vendors who administered vaccines and obtained the right to bill insurers for vaccine administration.

Management's Views and Corrective Actions:

In late 2020 when the State realized that COVID 19 tests were eligible for health insurance reimbursement, RIDOH approved a retroactive (Retro) billing effort to bill health insurers for tests performed between inception of COVID testing and January 31, 2021 – the date at which testing laboratories would directly bill insurers for all tests. Prior to January 31, 2021, the State paid the labs for the costs of the tests and then claimed FEMA reimbursement for those payments.

Retro billing for tests performed between inception and July 31, 2020, occurred in March 2021 with reimbursements for those billings starting in May 2021 (the billing for this time period was termed "Retro 1"). Since the response to COVID necessitated an immediate and unprecedented effort outside and in addition to business as usual with little augmentation of RIDOH Finance staff, RIDOH leadership continually prioritized the level of effort to devote to issues throughout the pandemic. For the Retro effort, RIDOH prioritized that the immediate, critical control necessary was to establish proper accounting for the reimbursement receipts. RIDOH worked with Accounts and Controls to establish an escrow account and the related procedures necessary to ensure that all reimbursement receipts were recorded to the escrow account. Additionally in September 2021, RIDOH established a dedicated effort to monitor and establish further procedures and controls over the retroactive insurance reimbursement process and initiated the preparation of a white paper to document it from Retro inception to date and established processes to reconcile the Retro 1 billing effort and the escrow account. The initial white paper was issued to RIDOH leadership in late October 2021; subsequent addenda will include discussions of the reconciliation of Retro 1, the escrow account, the payback to FEMA and the Retro 2 effort (for tests performed between August 1, 2021, and January 31, 2022, for which the billings are expected to commence March 2022).

The final reconciliation of Retro 1 was completed in January 2022 at which time it was determined that $101k of additional reimbursement was due to the State. As noted above, the majority of the retro receipts from the retro billing would be a return to FEMA for those testing costs paid by State to the labs for performing the tests and also reimbursed by Health Insurers (approximately 90% of the reimbursements). The remaining 10% would be revenue to the State. Thus, as of June 30, 2021, a receivable for $101k should have been recorded with the offset 90% to the escrow account and 10% to revenue.

RIDOH believes that now, control has been established over the Retro effort with procedures in place and regular management oversight.

COVID vaccine administration that has occurred to date has been provided by several providers. Only one vaccine provider has billed, and is authorized by RIDOH to bill health insurance companies for reimbursement: Doctor's Test Center (Covid Medical Solutions Illinois LLC dba Primary & Immediate Care Solutions LLC Doctors Test Centers). Per our contract with them, they are required to remit ten percent of insurance collections to RIDOH.

To date, we haven't received any payment or statement credits from Doctor's Test Center (DTC) for this reimbursement. DTC has already indicated they will be sending us checks for the reimbursement, rather than statement credits, and we expect to start receiving them in the next few weeks. Once received, we will credit the applicable COVID Vaccine federal grant (line sequence 4675624.02) as program income.

<u>Anticipated Completion Date:</u> *Ongoing*

<u>Contact Person:</u> *Sarah Parker, RI Department of Health*
Sarah.Parker@health.ri.gov

Finding 2021-017 ***(significant deficiency – new finding)***

MATERIAL AUDIT ADJUSTMENTS

We proposed multiple material audit adjustments during our audit of the State's fiscal 2021 financial statements.

Background: Generally accepted auditing standards require the need for material audit adjustments to be considered a control deficiency.

Criteria: Material audit adjustments are likely indicative of weaknesses in controls over the preparation of financial statements.

Condition: We proposed multiple material audit adjustments deemed necessary to fairly present the State's financial statements in accordance with generally accepted accounting principles.

Cause: Audit adjustments resulted from (1) unusual transactions during the fiscal year, (2) unusual and complicated accounting challenges caused by the influx of federal awards to fund pandemic related costs, (3) agency and department level staffing challenges, and (4) a high volume of journal entries in the current and prior years which require attention as to reversing and non-reversing status.

Additionally, multiple audit adjustments were required for the activities of the Department of Behavioral Health, Development Disabilities and Hospitals as described below:

- department expenditures were overstated by $11 million for fiscal 2021 due to an improper reversal of an adjustment from the prior year that went undetected;
- accruals were recorded incorrectly;
- accruals for final rate settlements for the state-operated Eleanor Slater Hospital (ESH) and State-operated Group Homes were initially omitted;
- hospital billings to Medicare ceased during the year and any potential recovery was not quantified;
- recognition of the patient share of room and board had not been recognized in fiscal 2021; and
- significant amounts of ESH claiming to Medicaid, processed in fiscal 2022 for prior periods, required restatement to a prior period and accrual at June 30, 2021 to properly classify the underlying reimbursements to the proper periods.

Effect: The State's financial statements could have been misstated without the required audit adjustments.

RECOMMENDATION

2021-017 Enhance oversight of material and complex journal entries to decrease the risk of misstatement of the financial statements.

Management's Views and Corrective Actions:

Management agrees with the finding and will implement new procedures to enhance the review of adjustments to mitigate risk of material misstatements of the financial statements. These procedures include:

- *Meeting with high-risk agencies to review preliminary and expected results*
- *Implementing and enforcing a policy for audits adjustments to be signed off by agency CFO and the Office of Accounts and Control (A&C).*

Additionally, the last two years has seen a significant turnover in high-level finance position at agencies. A&C will be involved in the hiring process to advice on candidates.

Anticipated Completion Date: *December 31, 2022*

Contact Persons: *Dorothy Pascale, State Controller*
dorothy.z.pascale@doa.ri.gov
Tara Mello, Associate Controller
tara.m.mello@doa.ri.gov

Finding 2021-018 ***(significant deficiency – new finding)***

TAXES RECEIVABLE

Taxes receivable required adjustment at year end due to timing differences and the inclusion of some invalid amounts.

Background: Processing of returns generates taxpayer billings in certain situations. Taxpayers that file and pay taxes in multiple jurisdictions must file an apportionment schedule with their tax return. When filing electronically and the apportionment schedule is missing, the return is rejected. When filed manually without the apportionment schedule all income is apportioned to Rhode Island. This generates a receivable for tax purportedly, but likely inappropriately, due.

Tax returns for large businesses are reviewed by tax personnel before they are posted to the taxpayer's account. This review can take several weeks to months and may substantially change the amount due to or from the taxpayer.

Criteria: Taxes receivable should represent valid receivables net of an appropriate allowance for uncollectible amounts.

Condition: Certain taxes receivable balances were overstated (prior to adjustment) by taxpayer error or other errors that were corrected and adjusted soon after fiscal year end.

Receivables were generated for returns that lacked apportionment schedules thereby attributing all income to Rhode Island. Controls could be enhanced by mandating electronic filing which includes edits to detect missing schedules and information.

Cause: Certain large receivable balances were not reviewed prior to year-end and included in tax receivable information provided for financial reporting purposes.

By Division of Taxation policy, if a corporation does not file an apportionment form with its tax return, the tax system adjusts the return to assign all income to the state and adjusts the tax due accordingly.

Effect: Taxes receivable were overstated (prior to adjustment) by a total of $1.2 million (net after allowance for doubtful accounts). The balance was adjusted for financial reporting purposes.

RECOMMENDATIONS

2021-018a Review large tax receivable balances at June 30 and remove any balances that are not valid receivables due to adjustment soon after year end.

2021-018b Adjust tax receivable balances due to the incorrect or non-filing of an apportionment schedule. Consider legislative remedy to mandate electronic filing which will enhance control over the completeness of filed returns.

Management's Views and Corrective Actions:

Management respectfully disagrees with this finding. Management notes that 89% of the subject filings are filed electronically, which means only 11% of the filings are "manually" filed (i.e., paper filings) and at issue in the finding; this equates to 32,912 electronic filings and 4,045 paper filings. The high number of electronic filings is due to the Division's efforts in highlighting the advantages of electronic filing and the Division of Taxation has attempted over the years to mandate electronic filing, which requires statutory changes.

The background statement that the receivable for tax is likely "inappropriately" due is a mischaracterization because based on the information, or lack of information, provided in the filings, the tax is due.

All large balances for all taxes are reviewed every three (3) business days throughout the year, and each day towards the end of each month, to confirm that no invalid receivables are established. The Division of Taxation creates initial receivables based on the filed information provided by the taxpayer via the tax return.

Occasionally, a taxpayer may have made a mistake on the return, at which point the Division would review to identify and correct prior to issuing a bill. In some cases, the information provided by the taxpayer may be incomplete, as such, the tax is calculated based on the best information available and in accordance with Rhode Island law. In situations where there is additional information subsequently provided by the taxpayer, the existing tax return is amended or adjusted, which may remove an existing receivable. This change occurs not because the original receivable was incorrect, but because the taxpayer supplied information that altered tax due calculated on their tax return.

The non-filing of an apportionment schedule where the taxpayer has apportioned income to Rhode Island may result in a receivable as described above. When subsequent supporting apportionment information is provided by the taxpayer, based on proactive, systematic written communication from the Division of Taxation, the tax due is recalculated based only on the apportioned income. The Division of Taxation reviews all available information prior to billing and will attempt to contact the taxpayer and/or reconstruct the apportionment schedule. If neither endeavor is successful, the tax will be billed based on best information available.

Management agrees that mandated electronic filing will enhance control over the completeness of a filed return and proposed draft legislation again in FY2023 to impose such a mandate.

Anticipated Completion Date: *Ongoing*

Contact Person: *Neena Savage, Tax Administrator*
neena.savage@tax.ri.gov

Finding 2021-019 ***(significant deficiency - new finding)***

RIFANS - TIMELY APPLICATION SOFTWARE UPDATES

Failure to install timely updates to the application software results in increased security risk and uncorrected software functionality issues identified by the software developer.

Background: Software developers provide customers with periodic updates to address or correct known system glitches, security deficiencies, or to improve system functionality.

Criteria: Software updates should be installed timely to ensure continued system functionality and to maintain system security features. When software updates cannot be effectively installed, notification should be made to key application users and information technology personnel to assess options and evaluate related risks.

Condition: During fiscal 2021, RIFANS software updates were installed in January 2021; however, subsequent updates through February 2022 have not been installed. Quarterly updates (“patches) are provided by the software vendor and consequently the RIFANS is four “patch sets” behind.

Cause: RIFANS system configuration, excessive software customization, and lack of technical personnel, add complexity to the update installation process. No required notification process exists to alert key application users that the updates could not be successfully installed or to trigger an appropriate risk evaluation/mitigation consideration process. Despite the State actively procuring a new statewide ERP system, the existing RIFANS accounting system will be in use for multiple years even under the most aggressive implementation schedule and consequently must be adequately maintained.

Effect: Risk was enhanced by the failure to install updates on a timely basis and because no required notification process exists to alert key application users and information technology personnel to assess options and evaluate related risks.

RECOMMENDATIONS

2021-019a Install software updates timely and at required intervals to ensure continued system operating functionality and maintain system security.

2021-019b Implement a required notification process to alert key application users and information technology personnel to allow an appropriate evaluation of risk and any required risk mitigation efforts.

Management's Views and Corrective Actions:

2021-019a - RIFANS enhancements in 2021 included integration with Ocean State Procures and the new grants management system. Updates now require additional testing resources due to the additional integration. In FY22 DOIT will be posting a managed service RFP to procure additional staff, in addition to the current contractors, to assist in the testing, patching of RIFANS and assistance with new ERP system. This will allow for timely updates of RIFANS. RFP to be posted in March 2022 with award by May of 2022

Anticipated Completion Date: *May 2022 for RFP*

2021-019b - The State will work with our Oracle vendor to identify the impact of uninstalled updates and communicate the risk with system users. A mitigation plan will be developed in partnership with the vendor to resolve upgrade issues.

Anticipated Completion Date: *December 2022*

Contact Persons: *Cesar Mendoza, Chief of IT, Infrastructure & Operations*
cesar.mendoza@doit.ri.gov
Alan Dias, Assistant Director, Information Technology
alan.dias@doit.ri.gov

Finding 2021-020 ***(significant deficiency previously reported as Finding–2019-006 and Management Comment 2020-04)***

PERIODIC INVENTORY OF CAPITAL ASSETS

The processes followed for periodic physical inventories of capital assets and the evaluation of inventory results can be enhanced to ensure that accurate capital asset records are maintained.

Background: The Office of Accounts and Control requires departments to perform agency-specific inventory verification for capital assets on a three-year cycle. Inventory results are reported to the Office of Accounts and Control which prompts any required accounting adjustments.

Criteria: Periodic physical capital asset inventories are a best-practice and important control procedure to ensure the accuracy of the State's capital asset accounting records.

Condition: A fiscal 2021 capital asset inventory conducted by the Department of Transportation identified approximately 40 capitalizable assets (mostly outdated furniture and computer equipment with historical acquisition costs above the State's capitalization threshold), that could not be located including a dump truck acquired in fiscal 2016 for $261,000. As a result of the RIDOT inventory results, the Office of Accounts and Control removed the assets from the capital asset records. Documentation provided to the Office of Accounts and Control included the required certification by the RIDOT Director.

We subsequently found that the truck had been mis-identified as disposed which led to the erroneous "asset not found" status. The truck was removed from service but located on State property awaiting to be sold. Material capital assets reported as "asset not found" should prompt robust inquiry and investigation by both the Department and the Office of Accounts and Control before the asset is written-off or removed from the capital asset inventory system.

Cause: Cyclical departmental inventories are conducted without on-site participation by the Office of Accounts and Control to ensure completeness and consistency. Inventory results are forwarded and accepted without sufficient review and inquiry before adjusting the State's capital asset records. Over-reliance is placed on the certification provided by the Departments when assets are not located without sufficient inquiry and investigation for material assets reported as not found.

Effect: Capital asset records and the State's financial statements could be misstated. Physical control of capital assets is diminished when there is insufficient follow-up and consequence for lost, misplaced, or misclassified material assets.

RECOMMENDATIONS

2021-020a Include staff from Office of Accounts and Control on the team performing each cyclical, departmental capital asset inventory.

2021-020b Enhance review and inquiry for material capital assets reported as not found before assets are removed from the State's capital asset inventory records.

Management's Views and Corrective Actions:

Management disagrees with these findings. Office of Accounts and Control (A&C) has implemented a number of steps to increase accuracy of the physical inventory process. A staff member of A&C is in constant contact with agency personnel throughout their inventory process. Once initial responses have been received, they are reconciled to the Fixed Asset database. From there, A&C staff sends an updated listing of all assets that need additional research. Once the agency believes they have exhausted all research options, A&C staff member will meet with the agency for final responses; the details of assets remaining to be located will determine what position in the agency hierarchy A&C request in the meeting. Additionally, write-off thresholds have been established based on asset category. If an asset meets the established threshold, additional documentation would be required to illustrate the disposition of the asset. For laptops, A&C will confirm the assignment of the asset with DoIT staff. For vehicles, A&C will confirm the whereabouts of the asset with State Fleet staff. Finally, all assets deemed unable to be located will be included in a write off document that must be approved by the agency's Director or Deputy Directory. A&C will evaluate the necessity to be physically present for each inventory.

Anticipated Completion Date: *Ongoing*

Contact Person: *Sandra Morgan, Assistant Director of Special Projects*
sandra.morgan@doa.ri.gov
Office of Accounts and Control

Finding 2021-021 ***(significant deficiency – repeat finding – 2020-012)***

DIVISION OF INFORMATION TECHNOLOGY – DISASTER RECOVERY TESTING

> The State should formalize identification of major systems, standardize application testing, and incorporate business continuity planning within its overall disaster recovery testing.

Background: Periodic tests of the disaster recovery plan are a vital component of an overall business continuity plan to increase the likelihood that critical systems can be restored should a disaster disable or suspend operations at the State's data center. DoIT has a designated disaster recovery facility in New Jersey (operated by a vendor).

Criteria: Industry best practices stipulate that disaster recovery testing be performed twice a year to accommodate the ever-changing systems environment. The State should perform a full disaster recovery test at least annually. Also, off-site storage of backups should be geographically diverse enough to successfully recover from a regional disaster.

Condition: A list of major systems has been developed, but the restoration priority needs to be formalized and communicated to State agencies. In addition, further progress is needed to test all critical functionality of major systems and their applications. During the fiscal 2021 test, the system and database were recovered for critical applications, however, the State did not fully validate the application functionality.

Cause: While major systems to be recovered have been identified, prioritization has not been formalized. Sufficient time has not been allotted to test all systems thoroughly. In addition, a repeatable level of application testing has not been formally established nor has business continuity planning been incorporated into disaster recovery testing.

Effect: Incomplete disaster recovery testing reduces the assurance that all mission critical systems can be restored, should a disaster disable or suspend operations.

RECOMMENDATIONS

2021-021a Formalize and communicate the restoration priority of major applications and communicate the priority order with the affected State agencies within disaster recovery tests at the State's designated disaster recovery site.

2021-021b Establish a repeatable level of application testing and incorporate business continuity planning within periodic disaster recovery testing.

Management's Views and Corrective Actions:

2021-021a - DOIT took tremendous strides in 2021 with a major investment and RFP award to modernize our extremely old foundational infrastructure and to optimize on premises operations. The DOIT DR Scoping project was also completed in 2021, with all major servers / applications identified for the Enterprise and agency teams, as well as the Application Development tower providing an order of restoration for the 16 primary groups that DOIT supports. To mature this process further, DoIT will be seeking Agency business leadership guidance on the routine identification and prioritization of their specific server and application stacks on an annual basis at a minimum. This will result in a more comprehensive enterprise-wide understanding of the critical business processes and technology that will then be prioritized for order of recovery by the Application Development tower, the CIO, as well as the Director of the Department of Administration.

2021-021b - DOIT successfully executed a Disaster Recovery (DR) test in October of 2020 of Agency IT Manager (AIM) defined critical applications. Documentation of this exercise and related recovery procedures are now stored in a Secure SharePoint Online location which is accessible by authorized users from anywhere with an internet connection to provide location independence and maximum resiliency. DOIT regularly plans to perform an annual Disaster Recovery (DR) test and will again be scheduling a test in Q4 of 2022 upon the completion of the major Datacenter modernization project, which will position us to recover more of our constantly growing environment than ever before, in a more timely and efficient manner as well. To go along with a newly awarded Backup, Recovery and DR solution that is being implemented now, a template for high level server stack and application testing across all agencies will be developed and maintained to support a standardized, repeatable process for our annually scheduled DR testing. Agency business leadership collaboration is required to define business critical processes, the applications that support those processes, and the Agency plan for business continuity requiring technology support from DoIT. This collaboration will be worked on together by the I&O and Application Development towers in DoIT, applying stringent project governance and tracking for success.

Anticipated Completion Date: *Ongoing*

Contact Person: *Cesar Mendoza, Chief of IT, Infrastructure & Operations*
cesar.mendoza@doit.ri.gov

Finding 2021-022 ***(material weakness – repeat finding – 2020-013)***

DIVISION OF INFORMATION TECHNOLOGY – PROGRAM CHANGE CONTROLS

Background: Program change controls are a critical component of any IT control environment, which ensures that only authorized changes are made to programs (after adequate and sufficient user acceptance testing) before being placed into a production environment. Additionally, program change control procedures prevent and detect unauthorized program modifications from being made.

> 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.

Almost all custom-developed computer applications require changes and/or updates throughout their production lifecycles. Consequently, these customized, home-grown applications require a formalized change management system to ensure that only authorized changes are made.

While some agencies have formally implemented program change controls, a standardized statewide approach has not been implemented.

Criteria: The State's change management process should be standardized so that all movement of code, modifications, testing, acceptance, and implementation provide management with a tracking history and record of approvals. This leads to consistent outcomes, efficient use of resources, auditability, and enhanced integrity of the application systems, which flow through the process. Automated tools help control this process and make the process consistent, predictable, repeatable and aids in the reduction of "human error" in the process.

DoIT should develop procedural guidance that details the correct use of change management software and mandated internal control practices and procedures, thus ensuring a documented, monitored, auditable, and repeatable process.

Condition: The State lacks a uniform enterprise-wide program change control management process for the various IT applications operating within State government. This led to inconsistent methods, as well as noncompliance and circumvention of DoIT's change control policy and procedures. In several instances, automated change control system procedures were lacking to substantiate that only authorized and proper changes had been implemented.

Cause: Various methods are used to control program change management which rely mostly upon manual and semi-automated procedures that incorporate emails, memorandums, and other paper-based forms to document application changes. In response to prior audit recommendations made since fiscal 2007, DoIT has attempted to implement change control software.

Effect: A lack of a uniform enterprise-wide program change control management process increases the risk that unauthorized or inappropriate changes could be made to IT applications without detection.

RECOMMENDATIONS

2021-022a Develop and implement procedures detailing specific requirements for program change control and disseminate and train DoIT support staff in its proper execution.

2021-022b Determine the appropriate combination of operational, procedural and/or technical adjustments required to use change management software to result in adequate program change control for the entire enterprise.

Management's Views and Corrective Actions:

DoIT has deployed the ITSM Service Delivery Tool, Service Now. The Change Management Process Module has been used to formalize and train staff on a Change Management Process, with establishment of a Change Advisory Board. All submitted changes with operational impact are reviewed and approved during the weekly CAB meeting. The application teams are involved in the CAB's; with enterprise level software and application changes being integrated into the CAB process. DoIT will continue to mature this process by inventorying vendor and Agency change management processes

In addition, DOIT is currently evaluating a change management/version control software environment for use in the enterprise. The Department of Transportation rolled out Microsoft Azure DevOps for version control. The Department of Labor and Training has implemented JIRA for application fix and change/enhancement tracking as well as release planning. DoIT is currently evaluating both tools as well as needs across agencies and will make a recommendation for use as our enterprise change management and version control process. This will be implemented for existing code base and future code base where system replacements are not eminent. When implementing SAS solutions to replace older applications those applications will undergo the best practice as provided by the vendor for change management.

Anticipated Completion Date: *Cross agency evaluation and recommendation by June 30, 2022*

Contact Persons: *Cesar Mendoza, Chief of IT, Infrastructure & Operations*
cesar.mendoza@doit.ri.gov
Alan Dias, Assistant Director, Information Technology
alan.dias@doit.ri.gov

Finding 2021-023 **(significant deficiency – repeat finding – 2020-014)**

DIVISION OF INFORMATION TECHNOLOGY – COMPREHENSIVE INFORMATION SYSTEMS SECURITY POLICIES AND PROCEDURES AND PERIODIC RISK ASSESSMENTS

The State can enhance its enterprise-wide security policies and procedures and communication of these policies and procedures with State agencies. Additionally, the State can enhance its ongoing security posture by periodically performing risk assessments to identify if mission critical systems comply with IT policies and procedures. A formal comprehensive risk-based approach to identify, prioritize, and manage DoIT infrastructure hardware and software improvements will help to maximize the effect of security upgrades**.**

Background: The Division of Information Technology (DoIT) within the Department of Administration (DOA) has responsibility for the State's varied and complex information systems. This includes ensuring that appropriate security measures are operational over each system and the State's information networks. Information security is critically important to ensure that information technology dependent operations continue uninterrupted, and that sensitive data accumulated within State operations remains secure with access appropriately controlled.

Periodic comprehensive technology risk assessments are key to uncovering underlying vulnerabilities in the environment as well as providing guidance on where to best spend limited assets to reduce risk. Recent cybersecurity attacks demonstrate the ongoing need to periodically assess the technology infrastructure for threats. During our audit we focused on the following mission critical systems due to their impact on the State's financial reporting: RIFANS, STAARS, RIBridges, MMIS, DMV- RIMS, and DLT benefit and revenue systems. We also reviewed the State's network security which is critical to the State's operations and can negatively impact application security if not maintained at an acceptable industry level standard. Our detailed findings and recommendations have been communicated confidentially since they involve security matters; however, those findings generally support the overall recommendations expressed in this finding.

In fiscal 2021, DoIT engaged in a wide array of system and network improvements that will enhance management capabilities (e.g., policy enforcement) and improve security. Projects cover a wide range of hardware and software initiatives including, but not limited to, the implementation of new software to improve support for privileged access management and the replacement of older hardware. These initiatives are intended to mitigate the IT security risks identified by DoIT relating to State network security.

Criteria: Risk assessment policies and procedures must be documented (National Institute of Standards and Technology – NIST RA-1). Risk assessments should be performed every three years or whenever there are significant changes (e.g., new system implementations) (NIST RA-3).

The oversight and management of the State's information security program relies upon the implementation of DoIT's comprehensive information systems security plan, which includes detailed policies and procedures that are designed to safeguard all the information contained within the State's critical systems.

Assessments of compliance to IT policies and procedures for all critical IT applications should be performed on a periodic basis as part of the risk assessment.

IT best practices require updates and patches be implemented timely as recommended by software vendors to ensure continued security and operational integrity.

Condition: The State has updated and created new policies and procedures for its critical information systems; however, it has lagged in approving, communicating, and implementing these policies. Further, the State has not implemented a practice of conducting formalized security risk assessments (or updates) on a cyclical basis to determine whether its IT systems (applications, networks, etc.) comply with State IT security policies and procedures.

Due to the size and complexity of systems (and related infrastructure) within State government, a risk-based approach should be employed where those systems deemed most critical, or most at risk, are prioritized. Further, a formalized risk assessment will ensure that risks deemed most critical (to operations and security) are mitigated in a timely manner.

The State should make continued use of external system assessments and reviews to complement on-going risk assessment monitoring. When State systems are operated by external parties or interface with external processing entities, these entities often provide Service Organization Controls (SOC) reports, which describe key controls within the application or organization and testing of the operational effectiveness of those controls. These reports should be accumulated and reviewed within DoIT as part of a risk-based approach to assessing and ensuring IT security compliance. Any user-entity controls identified in the SOC reports should be considered, evaluated, and documented. This may assist in expanding coverage of the State's many systems considering the minimal resources allocated to this function.

The State has insufficient resources allocated to timely evaluate and apply patches and updates to ensure continued security and operational integrity. As a result, updates and patches are not always implemented in a timely manner.

A large number of initiatives are either being planned or implemented to upgrade/enhance manageability and security but without a formal risk-based prioritization. A formalized plan should include risks by priority level, a corrective action or remediation plan, and anticipated costs and resources so that State management can adequately plan to address critical areas in a timely manner. The State should consider external resources to expedite the completion of this formalized assessment. Layering this effort on the State resources responsible for maintaining current operations and security is not practical.

Cause: The State maintains IT security policies and procedures; however, they are not regularly updated and appropriately communicated with State agencies. The evaluation of agency compliance with IT security policies and procedures needs improvement.

Policy and practice to perform information security risk assessments has improved, however, such efforts need to be formalized and expedited to ensure that critical issues are being mitigated in a timely manner.

Current resources are insufficient to maintain certain mission critical systems and information system security for an enterprise the size of the State.

Effect: Critical systems may be exposed to security vulnerabilities and cyber-attacks when comprehensive information security risk assessments are not performed routinely. This could impact the State's ability to ensure continued operation of mission critical systems.

Without a formal risk-based prioritization approach, ensuring that resources (funding and personnel) required to support the number of system implementations and security monitoring and improvements in process at any one time will be difficult to manage. Further, insufficient resources will increase the chances of project delay and failure as well as impacting the State's ability to manage the continuity and security of existing IT operations.

RECOMMENDATIONS

2021-023a Continue to update IT security policies and procedures to ensure such policies and procedures conform to current standards and address all critical systems security vulnerabilities with particular emphasis on keeping patches and versioning current to minimize cybersecurity risk.

2021-023b Perform formalized risk assessments at least once every three years (with annual updates to adjust security priorities) with the results documented and communicated to management for action. Contract for the performance of IT security compliance reviews and make use of available Service Organization Control reports to extend IT security monitoring of critical systems.

2021-023c Formalize a plan that prioritizes significant system security risks with the goal of achieving compliance with DoIT's formalized system security standards for all significant State systems. Assign each project a likelihood and impact risk rating and use as a factor to determine the prioritization of projects. Review project risk ratings at least once a year and update as needed. Use the plan to guide required funding and staffing to address significant priorities in a timely manner.

Management's Views and Corrective Actions:

2021-023a - The enterprise IT policies, procedures, and system security plans (SSP's) are in a continuous cycle of publish, review, and update. These policies are built upon the (National Institute of Standards and Technology) NIST 800-53 family of controls and are tailored to the IT systems operated and maintained within the enterprise domain. All policies are published, up to date, and reviewed annually. Procedures for compliance and systems security plans are in development.

Anticipated Completion Date: *September 2022*

2021-023b - With the adoption of the NIST Risk Management Framework (RMF), DoIT is building a system(s) risk assessment program for all enterprise operated platforms. This assessment process will be executed in a cyclical fashion; utilizing inputs from audits (internal, and external) and State hosted vulnerability and risk measuring technology and processes. External assessments will be scheduled and conducted on State critical systems. The successful execution of a defined risk assessment process is dependent on defined security policies and procedures to assess against.

Anticipated Completion Date: *January 2023*

2021-023c - The categorization of systems through the implementation of the RMF will provide the ability to prioritize mitigation of identified security risks. A running risk register is maintained at the enterprise level and will be created for all assessed systems; with plans of actions and milestones (POAM's) and corrective action plan's (CAP's) developed for each system after the initial, and each recurring system assessment. This completion of this recommendation is dependent upon completion of 2021-023a, b.

Anticipated Completion Date: *July 2023*

Contact Person: *Brian Tardiff, CISO*
brian.tardiff@doit.ri.gov

Finding 2021-024 ***(significant deficiency – repeat finding – 2020-016)***

DIVISION OF MOTOR VEHICLES – REVENUES COLLECTED FOR USE WITHIN THE INTERMODAL SURFACE TRANSPORTATION (IST) FUND

Controls can be improved over the recording of license, registration and surcharge fees collected by the Division of Motor Vehicles (DMV) and deposited in the IST Fund.

Background: In fiscal 2021, the DMV collected $106 million in revenues (excluding sales taxes) of which $86 million was remitted to the IST Fund's Highway Maintenance Account.

Criteria: DMV must have controls in place to ensure the completeness of revenue reflected within the IST Fund. RI General Law 39-18.1 designates certain fees to be deposited in the IST Fund for transportation purposes.

Condition: DMV lacks effective controls to ensure that all revenues collected by the DMV for deposit within the IST Fund have been recorded. RIDOT should have procedures in place to provide reasonable assurance that the appropriate fees have been earmarked for the IST Fund and have been received and recorded as revenue. This should include documentation of the fee structure identified by RI General Law Chapter 39-18.1, the surcharge amount being applied to each DMV transactions code, and how the DMV computer system is programmed to identify such amounts for the IST Fund. RIDOT and the DMV should periodically assess the reasonableness of the actual revenue recognized for recording in the IST Fund. We identified the following control deficiencies:

- There is no "cross-walk" of the fee structure identified by the RI General Laws for licenses, registrations, surcharges, etc. and how the DMV computer system is programmed to identify such amounts.

- The current reconciliation performed between RIFANS and DMV's RIMS does not include all fees collected by the DMV.

- Manual write offs are not recorded in RIMS; they are maintained outside of the system. Manual write offs should be recorded within RIMS to maintain a log of the adjustments and to facilitate RIMS/RIFANS reconciliation.

- Deposit date within the RIMS system is pre-populated – the date should reflect the actual deposit date to allow matching RIMS activity to RIFANS receipt entries.

Cause: The DMV's focus has been on successful system implementation, while using the system for enhanced monitoring of compliance with statutory revenue requirements and enhancing the control environment has not been fully explored.

Effect: Controls to ensure the completeness of the DMV revenues earmarked for transportation purposes within the IST Fund are ineffective.

RECOMMENDATIONS

2021-024a Enhance the monthly and annual reconciliations between RIFANS and RIMS, to include all RIFANS revenue accounts to ensure the data in RIMS supports the revenue recorded in RIFANS.

2021-024b Create a crosswalk between the fees charged in RIMS and the section of the Rhode Island General Laws authorizing the fee.

2021-024c Record the actual deposit date in the RIMS deposit date field.

Management's Views and Corrective Actions:

2021-024a - The DMV agrees that a reconciliation of the revenues collected is needed and will work to reconcile the revenues collected on an annual basis. The DMV expects to begin this annual reconciliation of all funds collected with the FY 2023 revenues.

2021-024b - The DMV agrees that a crosswalk is a beneficial document to have. The DMV expects to begin working on creating a crosswalk in June or July 2022 with completion by December 2022.

2021-024c -The DMV does not agree with recommendation 2021-024c, there are too many variables outside of the DMV's control that effect the deposit date(s). As previously stated, there are three separate deposits for each day's work, one for cash, checks and credit cards. The deposit of cash and credit cards are out of the DMV's control. The DMV relies on an armored car service (Service) to transport the cash to the bank and are subject to the Service's schedule. Any disruption to the Service's schedule impacts when the cash is recorded by the bank. Similarly, the funds transfer from credit card sales is handled by the processing company. Any disruption to the to the processing company's operations will affect the date the funds are recorded by the bank.

RIMS records the deposit date as the date that the branch was balanced and verified. RIMS is programmed so that once a branch has been balanced and verified corrections cannot be made. The DMV proposes to add a field on the Excel spreadsheet used for balancing to record the anticipated deposit date for each funding source. This proposal can be implemented immediately and can be edited to reflect any unforeseen disruptions that may cause a delay in the actual deposit date.

Anticipated Completion Date: *June 30, 2022*

Contact Person: *Paul Dombrowski, Administrator Financial Management*
Division of Motor Vehicles
Paul.Dombrowski@dmv.ri.gov

Finding 2021-025 **_(significant deficiency – repeat finding – 2020-017)_**

DIVISION OF MOTOR VEHICLES – SECURITY SYSTEM PLAN – RIMS

Criteria: A strong and well-designed information security program is essential for protecting an organization's communications, systems, and assets from both internal and external threats. Per NIST 800- 53, PM-2, "The organization appoints a senior information security officer with the mission and resources to coordinate, develop, implement, and maintain an organization-wide information security program."

> The Division's system security approach can be further improved by including additional critical system security requirements.

Per NIST SP800-18, "The purpose of the system security plan is to provide an overview of the security requirements of the system and describe the controls in place or planned for meeting those requirements. The system security plan also delineates responsibilities and expected behavior of all individuals who access the system."

A data inventory is essential for identifying and tracking an organization's financial data, intellectual property as well as other sensitive data such as personally identifiable information, in addition to helping organizations apply required access controls and security safeguards such as database logging and monitoring.

Proper Access Management is essential to both protect and maintain the integrity of the DMV data stored within the RIMS system. Part of this function is to ensure the timely adjustment of access privileges or removal of system access altogether for RIMS users who either transfer or terminate employment with the DMV.

Condition: A system security plan was adopted in fiscal 2020. However, additional steps are needed to provide a comprehensive approach to address critical system security requirements which include:

- assigning a senior information security officer;
- maintaining a sensitive data inventory for the DMV RIMS database;
- logging and monitoring the database for access to sensitive data; and
- implementing formal incident response training (such as handling a data breach) for employees. An analysis of 2,073 RIMS users determined that four users did not have their access removed in a timely manner after departing. DMV administration indicated that they perform an annual sweep for access that should be removed; however, an annual review is insufficient to appropriately limit the risk of unauthorized access.

Cause: Additional focus is needed on the key elements of a well-designed information security program.

Effect: The overall information security program is weakened in the absence of a senior information security officer. The lack of a sensitive data inventory leaves data susceptible to unauthorized access, theft, and loss. Understanding the type of data collected, where it is held, whom has access, and how it is transferred is a critical component of data privacy and data security programs. In the event of a data breach, the organization would not be able to quickly and accurately identify which data was accessed and/or lost. Additionally, if data is not properly classified, inventoried, and stored, unauthorized users within the organization may be able to access sensitive/confidential data.

Formal Incident Response training is essential so that all staff are clear on their roles and the steps to be taken in the event of an IT security incident (e.g., data breach).

RECOMMENDATIONS

2021-025a Develop a sensitive data inventory for the RIMS system to identify sensitive data elements needing greater protection.

2021-025b Implement RIMS database logging and monitoring for sensitive data.

2021-025c Conduct formal incident response training for DMV staff.

2021-025d Enhance controls and timeframes to ensure prompt termination of system access when employees leave or change functions. Document timely reviews of access privileges.

Management's Views and Corrective Actions:

2021-025a - Sensitive data and systems inventory will be conducted jointly with the DoIT enterprise team through the documentation of systems within System Security Plans (SSP). Additionally, technology such as database protection (Guardium) will assist in this line of effort, enterprise implementation is in progress.

Anticipated Completion Date: *July 31, 2022*

2021-025b - Access to Sensitive data and systems inventory will be monitored jointly with the DoIT enterprise team through the documentation of systems within System Security Plans (SSP). Additionally, technology such as database protection (Guardium) will assist in this line of effort, enterprise implementation is in progress.

Anticipated Completion Date: *July 31, 2022*

2021-025c - Incident response process and management is actively executed with the enterprise incident response plan and program. DMV staff, DMV application partners, and DMV IT staff are trained and participate in real world incident response frequently. COOP training has also been administered. Planning for a tabletop exercise is in progress.

Anticipated Completion Date: *August 31, 2022*

2021-025d - Initiated a service request process to address. DMV staff submits a service request upon employee termination, the active directory account is then terminated. In addition, a DMV IT staff member conducts quarterly reviews of the RIMS users to terminate from the RIMS system. An enhancement to this current process is being reviewed to provide notification to the DMV IT staff member when the service request is submitted so the access to RIMS will be terminated once notification is received.

Anticipated Completion Date: *July 31, 2022*

Contact Person: *Clare S. Sedlock Deputy Administrator*
RI Division of Motor Vehicles (DOR)
clare.sedlock@dmv.ri.gov

Finding 2021-026 ***(significant deficiency - repeat finding - 2020-018)***

INTERMODAL SURFACE TRANSPORTATION FUND – FINANCIAL REPORTING

Controls can be enhanced over the presentation of financial statements to ensure consistent and accurate reporting of fund activity in accordance with generally accepted accounting principles.

Background: The Intermodal Surface Transportation (IST) Fund, a special revenue fund, accounts for transportation related activities of the State, including the federal highway construction program, transportation bond proceeds, designated revenues collected by the Division of Motor Vehicles and toll revenues.

Criteria: Controls over the preparation of financial statements should ensure consistent and accurate reporting of fund activity in accordance with generally accepted accounting principles. Fund balance components must reflect any restrictions on use or commitments by management. Classification of fund balance components, particularly within the IST Fund, demonstrates amounts available to support the transportation program consistent with any limitations or restrictions on use.

Condition: We identified deficiencies in controls over the presentation of fund balance. RIDOT posts journal entries at fiscal year end to allocate the fund balance to the correct accounts within the general ledger, which then supports the fund balance categorization requirements of generally accepted accounting principles. One journal entry was misposted which understated/overstated components of fund balance by $3.3 million.

Due to the multiple computer systems used by RIDOT the department must identify accounts payable within each subsystem which caused accounts payable and expenditures to be overstated by $7.9 million and a related overstatement of federal revenue and due from the federal government by $3.5 million. Transfers from the IST Fund to the General Fund and RIPTA related to the Highway Maintenance Account were understated by $1.2 million and $0.3 million, respectively.

Cause: The presentation of fund balance components is more of a manual rather than system-controlled process and errors can occur and not be detected. The use of multiple systems makes the identification of accounts payable more challenging. Additionally, the accounting structure between RIFANS and the other systems are not the same, causing the department to manually assign RIFANS accounting structures to thousands of detailed transactions to record accounts payable, a process susceptible to error.

Effect: Account balances within the IST financial statements could be misstated.

RECOMMENDATIONS

2021-026a Ensure the transactions identified through the analysis of each activity and/or funding source within the IST Fund result in the appropriate categorization and reporting of fund balance components on the financial statements and general ledger. Perform a complete reconciliation of activity by funding source to the fund balance components included on the financial statements.

2021-026b Reassess policies, procedures and controls to identify and record accounts payable at fiscal close with the aim of streamlining and simplifying where possible. Consider increased use of estimates where appropriate.

2021-026c Enhance controls to ensure that 5% of Highway Maintenance Account revenues are transferred to the General Fund and RIPTA as required by law.

Management's Views and Corrective Actions:

2021-026a: Short Term: During FY 2021, RIDOT has worked to improve the fund balance procedure. During the fiscal year the fund activity was reconciled by RIFANS line items for all Federal accounts to ensure accuracy and consistency. Any inconsistencies found are adjusted at that time. During FY 2022, the focus will be to implement policies and procedures to improve the fund balance reconciliation and ensure the process is compliant with GASB 54 standards. DOT is also working with IT to develop reports to assist in reconciling fund balance.

<u>Anticipated Completion Date of Short Term:</u> *December 31, 2022*

Long Term: Once the adopted policies and procedures have been implemented for all Federal fund balance accounts, RIDOT will expand the reconciliation to include all State fund balance accounts. This expansion of the process will ensure all fund balance accounts regardless of funding source are being reconciled monthly.

<u>Anticipated Completion Date of Long Term</u>: *June 30, 2023*

2021-026b: Short Term: RIDOT has evaluated its policies and procedures to identify where additional controls can be put in place to ensure accurate identification of accounts payable at fiscal close. RIDOT has enhanced its policies and procedures to include the fiscal year field for an invoice be filled out all year round instead of just at fiscal close time. In addition, DOT will extend the accrual period through September with a third and fourth run of the fiscal close reports which will result in further accrual entries.

<u>Anticipated Completion Date of Short Term:</u> *June 30, 2022*

Long Term: RIDOT will research the use of estimates with regards to the fiscal close process. This will take time as it will consist of analysis and research.

<u>Anticipated Completion Date of Long Term:</u> *TBD*

2021-026c: RIDOT will revise the fiscal close procedures to ensure transferred to the General Fund and RIPTA accounts are reevaluated at various points throughout the close process including after all accrual entries are posted and after audit adjustments are posted. RIDOT will post one final accrual entry to capture many adjustments based on the be postings during the fiscal close period.

<u>Anticipated Completion Date</u>: *December 31, 2022*

<u>Contact Person</u>: *Loren Doyle, DOT Acting Chief Operating Officer/Chief Financial Officer*
loren.doyle@dot.ri.gov

Finding 2021-027 ***(material weakness – repeat finding – 2020-019)***

<u>TRANSPORTATION INFRASTRUCTURE REPORTING</u>

Background: RIDOT enhanced its process to identify transportation infrastructure assets which uses the RIDOT Financial Management System (FMS) to identify each project and ensures that total project costs (e.g., design and construction costs) are included in the capitalized amount. Since the source of the information used to identify capitalized infrastructure is FMS and the financial statements are based on RIFANS (statewide accounting system), the data used must be reconciled between the two systems.

Projects classified as infrastructure are assigned to nine infrastructure codes established to identify the infrastructure type (road, bridge, etc.) and the estimated useful life which drives depreciation expense.

> Controls over the identification of transportation infrastructure assets have been improved but can be further enhanced to ensure the accuracy of such amounts. Controls should be improved to identify impaired infrastructure assets as well as removing infrastructure costs when assets are retired or replaced.

Criteria: Generally accepted accounting principles (GAAP) require recording the State's investment in infrastructure assets to be reflected on the government-wide financial statements. Such amounts should be capitalized and depreciated consistent with the State's adopted accounting policies. Amounts are recorded as construction in progress until placed in service at which time depreciation commences.

GAAP also requires that capital assets be evaluated for impairment when events or changes in circumstances suggest that the service utility of a capital asset may have significantly and unexpectedly declined. These standards also require adjustment of the carrying value of capital assets that meet certain impairment criteria.

The cost and related accumulated depreciation associated with infrastructure assets that have been replaced or are no longer in service should be removed from the infrastructure amounts included on the financial statements.

Condition: RIDOT did not document its consideration of transportation infrastructure assets that may be impaired and provide such documentation to the Office of Accounts and Control for the purpose of preparing the State's financial statements.

The cost and related accumulated depreciation associated with infrastructure assets that have been replaced or are no longer in service has not been removed from the infrastructure amounts included on the State's financial statements.

We proposed material adjustments to correct balances at June 30, 2021 – construction in progress was overstated by $62.5 million and infrastructure was overstated by $37.7 million as detailed below:

- Infrastructure assets were misstated when year-end accruals were not properly included (or reversed) in reported construction in progress amounts.
- Costs related to the construction of toll gantries were identified as road maintenance in error, causing an understatement of CIP additions of $10.9 million.
- Ten projects identified as substantially complete in fiscal 2021 and reclassified from CIP to Infrastructure were overstated by $38.3 million.

Cause: Controls over RIDOT's infrastructure asset identification process are not sufficient to ensure accurate accumulation of capitalized infrastructure amounts.

A process to remove estimated costs for retired/replaced infrastructure has not been implemented. The consideration and documentation of impaired infrastructure assets has not been formalized.

RIDOT does not review the Capital Asset portrait to ensure that balances are consistent with supporting documentation and RIFANs.

Effect: Infrastructure assets and related depreciation expense may be misstated in the State's financial statements.

<u>RECOMMENDATIONS</u>

2021-027a Enhance controls over the assignment of project infrastructure codes.

2021-027b Improve controls over the calculation and identification of projects to be reclassified from Construction in Progress (CIP) to Infrastructure. Record any infrastructure related journal entry at the funding source level. Ensure information maintained in the Department's Schedule of Construction in Progress agree to FMS, RIFANS and the capital asset portrait. Any differences should be researched and resolved.

2021-027c Document consideration of whether any of the State's transportation infrastructure has been impaired consistent with GAAP criteria.

2021-027d Implement a process to remove estimated infrastructure assets and related accumulated depreciation when assets have been replaced or taken out of service.

Management's Views and Corrective Actions:

2021-027a: RIDOT Finance is working with Scoping and Project Management to develop a standard form for infrastructure code verification. The Grants section will also make sure that policies and procedures are updated to ensure there is management concurrence once entered into FMS.

<u>Anticipated Completion Date:</u> *December 31, 2022*

2021-027b: RIDOT will develop policies and procedures to formalize the review of the capital asset portrait. The procedures will ensure the review of the capital asset portrait is documented and posted correctly.

Anticipated Completion Date: *December 31, 2022*

2021-027c: RIDOT will review the criteria for impairment of assets and from there develop a policy and a procedure for determining if any of the State's transportation infrastructure assets have been impaired. Finance will coordinate with the necessary sections to develop and implement this policy.

Anticipated Completion Date: *June 30, 2023*

2021-027d: RIDOT will work develop a policy and a procedure for removing infrastructure assets that have been replaced or taken out of service. RIDOT will work with Accounts and Control to ensure the appropriate amounts are removed.

Anticipated Completion Date: *June 30, 2023*

Contact Person: *Loren Doyle*
DOT Acting Chief Operating Officer/Chief Financial Officer
loren.doyle@dot.ri.gov

Finding 2021-028 ***(significant deficiency – New)***

TOLLING REVENUES - EVALUATION OF CONTROLS OVER FUNCTIONS PERFORMED BY EXTERNAL PARTIES

Background: Service Organization Control (SOC) reports are provided by service organizations to assure customers/clients that controls are sufficiently designed and in operation over relevant activities. Management of the user entity should use these reports as part of their overall consideration and documentation of the adequacy of the design and operation of internal control. During fiscal 2021 there were 12 tolling locations which collected approximately $32.7 million in revenue.

Obtain a service organization control report to provide assurance on key controls of a vendor involved in highway tolling operations.

Criteria: Management has responsibility for the adequacy of design and operation of an entity's control structure including functions performed by external parties.

Condition: Management lacks assurance that information system related internal controls provided by the vendor responsible for identifying the proper vehicles to be tolled and reporting such information to RIDOT are adequate to ensure financial and other information is accurate, complete, available, and secure.

Cause: The State did not obtain an independent SOC report from the vendor responsible for running the Tolling System because RIDOT did not include a specific requirement to provide the results of independent SOC testing as part of their contractual agreement.

Effect: Many functions performed by external parties are material to the State's overall operations. Deficiencies in the design or operation of controls at service organizations could materially impact the State's overall controls over financial reporting.

RECOMMENDATION

2021-028 Modify the contract with the tolling vendor to require the vendor to provide the results and conclusions of the annual SOC testing.

Management's Views and Corrective Actions:

RIDOT is working with the vendor to modify the contract to include the results of the annual SOC testing.

Anticipated Completion Date: *December 31, 2022*

Contact Person: *John-Paul Verducci, Chief, Economic and Policy Analyst*
Department of Transportation
JohnPaul.Verducci@dot.ri.gov

Finding 2021-029 **(significant deficiency – repeat finding – 2020-020)**

ASSESS THE RESOURCES AND SYSTEMS NECESSARY TO EFFECTIVELY ADMINISTER THE OPEB SYSTEM

> The resources necessary to effectively manage and administer the OPEB 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.

Background: The Rhode Island State Employees' and Electing Teachers OPEB System (the System), acts as a common investment and administrative agent for post-employment health care benefits provided by six plans covering state employees and certain employees of the Board of Education.

When the State began to advance fund its retiree health benefits, OPEB trusts were established for each of the plans and a formalized governance structure was established by statute; however, no dedicated personnel were specifically tasked with administering the System and no administrative systems were implemented at that time, or subsequently, to capture and control membership data for the various OPEB plans. Instead, membership data, the determination of eligibility for benefits and any required retiree copays are administered through a variety of processes which largely lack the controls needed to administer plans of this size and complexity. In prior years, certain plan benefit functions were administered through the member benefit system used by the Employees' Retirement System of Rhode Island (ERSRI) for pension benefits; however, the ERSRI's newly implemented member benefit system no longer includes those functionalities.

The System's functions are managed through various units within State government. The Department of Administration's Office of Employee Benefits (OEB) currently determines eligibility and manages member benefits for the State Employees, Teachers, Judges, State Police and Legislator plans. The Human Resources Department at the University of Rhode Island separately determines eligibility, calculates benefits, and manages member subsidy receivables for the Board of Education plan. The Office of Accounts and Control handles the accounting and financial reporting aspects of the System and coordinates the actuarial valuations. The Office of the General Treasurer oversees the investment activity of the System.

Census data for each plan is provided annually to the System's actuary to prepare required actuarial valuations of the plans. Each plan has unique benefit eligibility and healthcare coverage provisions.

Criteria: As the System grows and matures, the administrative infrastructure supporting the System should be assessed to ensure adequate resources and systems with appropriate controls are in place to manage the System effectively.

Maintaining membership data and determining the eligibility for benefits and required co-pays should be managed through systems and processes with adequate controls to ensure that membership data is reliable, benefits are accurately and consistently determined consistent with plan provisions, and plan census data is maintained to facilitate extraction for actuarial valuations. Duties should be appropriately segregated to ensure that no one individual is responsible for determining eligibility and required copays, enrolling the individual for coverage, collecting and accounting for copay amounts, and maintaining plan census data.

Condition: We identified control deficiencies over the various disjointed processes used to administer the OPEB plans as follows:

- Insufficient resources have been allocated and centralized to administer the System effectively. Knowledge of key System benefit provisions, administrative operations and operating procedures are dispersed among too many separate units of State government without effective coordination.

- The accumulation of census data provided to the actuary for plan valuation purposes is derived from multiple sources and requires analysis of other external source data to establish the active and retiree plan members for each plan. Because much of the analysis is done on spreadsheets, controls over data validity, data protection, and completeness are lacking. Controls are inadequate to prevent duplicate or inaccurate census data from being provided to the actuary.

- Inadequate segregation of duties exists between eligibility determinations, benefit calculations, copay receivable billings and collections, healthcare plan enrollment, and maintenance of the plan census information.

- Periodic reconciliations between the plans' records and healthcare providers enrollment data are not documented.

- Procedures for identifying and terminating coverage for deceased members, spouses and dependents are inconsistent and can be improved.

Cause: The State and System have not implemented System specific administrative processes and computer applications to effectively support the overall administration of the OPEB System, accumulate plan census data, manage and control the eligibility, copay determination, and plan enrollment functions. Existing processes used to support healthcare plan enrollment for active employees have generally been used to support the OPEB System but lack certain functions and controls that are unique to and requisite for the administration of the OPEB System.

Effect: Inadequate controls over key plan administrative functions could impact the reliability of amounts (e.g., member co-pays and member benefits) reported on the System's financial statements as well as the accuracy of census data used by the actuary to determine each plan's annual actuarially determined contribution amount and the net OPEB liability or asset for each plan.

<u>RECOMMENDATIONS</u>

2021-029a Assess the resources necessary to effectively manage and administer the OPEB System to ensure all System functions are met and adequately controlled.

2021-029b Implement a member benefit computer application to accumulate and manage plan membership data to support the overall administration of the OPEB System with enhanced controls.

2021-029c Evaluate assigned responsibilities for key functions and segregate certain responsibilities for incompatible functions to enhance controls over critical plan administrative functions.

2021-029d Establish consistent procedures to identify deceased plan members and prompt timely termination of coverage.

Management's Views and Corrective Actions:

The OPEB Board agrees with the recommendations presented by the Auditor General. In fiscal year 2022, the OPEB Board hired a full-time staff to be responsible for key functions of the OPEB system. This resource, who is part of Office of Accounts and Control, will coordinate with the appropriate parties for the development of procedures related to identification of deceased plan members and timely termination of their coverage.

The OPEB Board believes that implementing a stand-alone software application to accumulate and manage plan membership data will be extremely costly for the system to finance with authorized administrative funding. However, to address this recommendation, the OPEB Board requested this functionality be included in the RFP for the new Enterprise Resource Planning (ERP) system being pursued by the Department of Administration, which is to include a full-service Human Capital Management module.

<u>Anticipated Completion Date:</u> *June 30, 2025 for ERP/OPEB implementation*

<u>*Contact Persons:*</u> *Xiomara Soto, Financial Reporting Manager*
Office of Accounts and Control
xiomara.c.soto@doa.ri.gov
Joseph Codega, State Budget Officer, OMB
joseph.codega@omb.ri.gov
Dorothy Pascale, Controller, Office of Accounts and Control
dorothy.z.pascale@doa.ri.gov

Finding 2021-030 **(material noncompliance – repeat finding – 2020-022)**

<u>RHODE ISLAND CONVENTION CENTER AUTHORITY – RESTRICTIVE COVENANTS</u>

Criteria: Bond indentures require that the Authority fund the Operating Reserve requirement of the restrictive covenants for the RICC and the DDC.

Condition: During the year ended June 30, 2021, the Authority was unable to fund the Operating Reserve requirement of the restrictive covenants for the RICC and the DDC pursuant to the indentures.

Context: The Authority is currently in violation of certain debt indentures with respect to the Operating Reserve requirement.

Effect: As a result of this fund not being funded, the Authority is in noncompliance with certain bond indentures.

Cause: The Authority does not have sufficient cash flow to fund the Operating Reserve.

<u>RECOMMENDATION</u>

2021-030 We recommend that the Authority fund the Operating Reserve.

Management's Views and Corrective Actions:

The Authority will fund the Operating Reserve provided there is sufficient cash flow.

Given that the Authority continues to make timely and complete debt service payments, it would make little sense for the trustee to declare a default for reserve fund noncompliance. In fact, this has been the practical practice over several years as the Authority has failed to maintain adequate reserves due to insufficient State appropriations. If a default was declared, the Authority would have 90 days to cure and would seek a legislative appropriation to remedy the default. Of course, annual appropriations in excess of debt service requirements would assist in building reserves and reaching the requirements.

<u>*Anticipated Completion Date:*</u> *Undetermined*

<u>*Contact Person:*</u> *Daniel McConaughy, Executive Director*
Rhode Island Convention Center Authority
Daniel.mcconaghy@riccauth.com

Finding 2021-031 ***(material weakness – repeat finding – 2020-023)***

CENTRAL FALLS SCHOOL DISTRICT – SIGNIFICANT ADJUSTMENTS

Criteria: Management is responsible for the maintenance of adequate accounting records, internal controls and the fair presentation of the financial statements in accordance with generally accepted accounting principles.

Condition: Material adjustments to year-end balances and current year activity were necessary for the financial statements to be fairly presented in accordance with generally accepted accounting principles.

Cause: There are a number of causes for this condition, many being the result of attempts to correct circumstances. However, the principal causes are a lack of a coordinated, comprehensive plan to implement and train employees with new financial software, concurrent with the retirement of several key long-term employees.

Effect: Information recorded in and reports produced from the accounting system contained numerous material errors related to the inclusion or exclusion of information resulting from data entry and software execution errors, resulting in material adjustments accepted by management to the District's financial statements.

RECOMMENDATION

2021-031 A comprehensive plan to coordinate all District financial accounting recording and reporting activities is in the process of being developed and implemented. This plan should include the development of a comprehensive policies and procedures manual; adequate staffing including training of all staff as to both the processes and the software involved; appropriate controls related to authorization and review of recorded transactions; timely recording of transactions, reconciliations and reviews of reconciliations so as to detect and correct errors in a timely manner, and a comprehensive review of the District's organizational structure to ensure adequate levels of supervision and clear reporting paths for all staff involved.

Management's Views and Corrective Actions:

The District agrees with the finding. The District also agrees with the recommendation.

Management will correct the material weakness by ensuring adequate staffing including training on the processes and software involved, appropriate controls related to authorization and review of recorded transactions, and timely recording of transactions and reconciliations.

Anticipated Completion Date: *Ongoing*

Contact Person: *Keree J. Simmons, Director of Finance*
Central Falls School District
simmonsk@cfschools.net

Finding 2021-032 ***(significant deficiency – repeat finding – 2020-024)***

CENTRAL FALLS SCHOOL DISTRICT – CAPITAL ASSETS

Criteria: Capital assets are maintained by the District and reported in the government-wide statement of net position. Although these capital assets and the related depreciation do not impact the fund statements of the District, they do have an impact on the overall governmental net position. Additionally, the District is required to maintain capital asset records for all assets that are purchased with federal grant funds.

Condition: The District does not have procedures for maintaining the capital asset records on a perpetual basis or for taking a physical inventory of these assets. In addition, the District does not have a system in place for identifying capital assets acquired with federal grant funds.

Cause: The District currently maintains the capital asset records utilizing an excel database which is updated on an annual basis. This database contains a complete listing of capital assets and related depreciation expense which is maintained for financial reporting purposes only. The listing currently does not include any information regarding the location of the asset or the source of the funds used to acquire the asset.

Effect: Failure to maintain the capital asset records on a perpetual basis increases the risk of potential misstatement of the capital assets at year end. In addition, failure to conduct a periodic inventory of capital assets, including controllable assets (assets not meeting the capitalization threshold but included in inventory due to their sensitive, portable, and/or theft prone nature) increases the risk of misuse and misappropriation of District assets.

RECOMMENDATION

2021-032 We recommend that the District implement an integrated software package that will enable capital assets to be recorded when the asset is acquired rather than being captured at year end. We further recommend that the capital asset inventory be updated to include the location of the asset and a code to identify all assets that are acquired with federal funds. Management should utilize this capital asset inventory listing, as well as the controllable asset listing, to conduct periodic inventories of the assets.

Management's Views and Corrective Actions:

The District agrees with the finding. The District also agrees with the recommendation.

Management will correct the noted significant deficiencies by hiring a third party to complete an inventory of all capital assets. Management will then incorporate this information into the financial software system.

Anticipated Completion Date: *Ongoing*

Contact Person: *Keree J. Simmons, Director of Finance*
Central Falls School District
simmonsk@cfschools.net

Finding 2021-033 ***(material weakness – new finding)***

I-195 REDEVELOPMENT DISTRICT – RESTATEMENT OF 2020 FINANCIAL STATEMENTS

Criteria: Financial statements should accurately reflect transactions recorded in the financial records.

Condition: As part of an internal review and reconciliation process with the State, management discovered amounts incorrectly reported in the 2020 financial statements.

Cause: During the year-end close for the year ended June 30, 2020, there was a change in who managed the accounting for the District. During the year ended June 30, 2021, the District noted changes that were needed to the prior year financial statements, as described in the notes to the Financial Statements.

In addition, there were unknown permit fees collected by the State by credit card that the District was not made aware of until after the June 30, 2020 audited financial statements were made available to issue.

Effect: The District's internal controls over financial reporting were unable to prevent, or detect and correct errors on a timely basis. The District found it necessary to record adjustments totaling $27,971 (reducing revenues and reallocating expenses) to its 2020 financial statements.

RECOMMENDATION

2021-033 We recommend that management ensure that appropriate controls are in place over its financial reporting to prevent, or detect and correct, errors on a timely basis.

Management's Views and Corrective Actions:

Prior period adjustments were made to restate the financial statements as of June 30, 2020, for two purposes. Adjustments were made to the final total of accrued building permit fees and permit fee income, in addition misclassifications were identified and corrected in the Project Fund Account.

Building Permit Fee Adjustment: During a reconciliation of building permit fee collection with the State Building Commission, it was brought to the District's attention that credit card fees had been collected by the State without the District's knowledge. With this and some other minor findings, the District had to adjust the final amounts for the period ended June 30, 2020 to accurately reflect building permit revenue and the amount due to the City of Providence.

Corrective Actions: The District has worked closely with the State to develop a streamlined communication strategy on any new fees collected. In addition, the Director of Operations has been given access to review new permits that are issued. The State has also incorporated some changes to the building permit fee online portal regarding District issued permits. This includes incorporating some GIS integration, disabling the use of credit card for District fees, and an additional payment instruction page with the online portal. Internally, the District has worked with its Accounting Firm to set into place additional controls and improved bookkeeping.

Project Fund Misclassifications: Several misclassifications were discovered in the Project Fund account during the transition to a third-party accounting firm.

Correction Actions: The District and Accounting Firm will continue to review prior year financials to ensure there are no other misclassifications in addition to incorporating semi-annual General Ledger reviews to avoid any future issues.

Anticipated Completion Date: *Ongoing*

Contact Person: *Amber Ilcisko, Director of Operations*
I-195 Redevelopment District
ailcisko@195district.com

Finding 2021-034 ***(significant deficiency – new finding)***

I-195 REDEVELOPMENT DISTRICT – CYBERSECURITY

Criteria: The District should ensure that appropriate cybersecurity policies, procedures and controls are in place to protect the District against losses.

Condition: During the year, the District was the target of a phishing attack where the perpetrator portrayed an employee, successfully instructed management to amend payroll direct deposit information, and fraudulently obtained an employee's net pay for two payroll cycles.

Cause: The District lacked sufficient cybersecurity training and related control policies and procedures to protect the District from this type of fraudulent scheme.

Effect: As a result, the District incurred uninsured losses of approximately $6,599 for payroll that was routed to the perpetrator's bank account.

RECOMMENDATION

2021-034 We recommend that management implement cybersecurity training and appropriate control policies and procedures to ensure that such instances do not recur in the future.

Management's Views and Corrective Actions:

During the year, the District was the target of a phishing attack where the perpetrator portrayed an employee, successfully instructed management to amend payroll direct deposit information, and fraudulently obtained an employee's net pay for two payroll cycles totaling $6,599.

Corrective Actions: The District has taken a number of measures to prevent this from occurring again in consultation with its IT consultant, including adding an external tag to all emails stating it is coming from the outside, adding an extra security filter system, and enabling a multi-factor authentication on all accounts. Finally, management has also taken a cybersecurity training course.

Anticipated Completion Date: *Ongoing*

Contact Person: *Amber Ilcisko, Director of Operations*
I-195 Redevelopment District
ailcisko@195district.com

Finding 2021-035 ***(significant deficiency – new finding)***

THE METROPOLITAN REGIONAL CAREER AND TECHNICAL CENTER – FAILURE TO RECONCILE THE GENERAL LEDGER

Criteria: Internal controls should be in place to provide reasonable assurance that general ledger accounts are properly reconciled.

Condition: During the performance of our audit of the MET's financial statements, we noted that the trial balance was not properly reviewed before given to the auditors. We noted significant entries needed to be made related to state aid, accrued payroll, accounts payable, and fixed assets upon review of the accounts.

Cause: Management failed to enforce policies and procedures to ensure internal controls are functioning properly in relation to the conditions listed above.

Effect: Failure to properly reconcile general ledger accounts resulted in a significant amount of adjusting journal entries and increases the risk of material misstated financial statements.

RECOMMENDATION

2021-035 Policies and procedures should be developed and implemented by the Met's management to ensure that appropriate internal controls are enforced.

Management's Views and Corrective Actions:

In the last quarter of the fiscal year, it is part of the MET's annual procedures to review all balance sheet accounts in greater detail prior to fiscal year end. For the fiscal year in question, the chief accountant position was vacant due to a resignation in May of 2021 that was not filled until the following month. Given the temporary reduction in staffing and the time necessary to onboard a new employee, this procedure was delayed.

The MET has filled the chief accountant role with an extremely experienced individual who holds a Certified Public Accountant (CPA) license. The MET views this as a singular occurrence do to a change in staffing and not a failure of controls that will be repeated.

Anticipated Completion Date: *Ongoing*

Contact Person: *Lucas Lussier*
The Metropolitan Regional Career and Technical School
llussier@metmail.org

Finding 2021-036 ***(material weakness – new finding)***

RHODE ISLAND COMMERCE CORPORATION – REVENUE RECOGNITION

Criteria: The Rhode Island Commerce Corporation should recognize revenue in the period in which it is earned.

Condition: In regards to the Small Business Loan Fund, there was $1,000,000 of CARES Act Revolving Loan Fund revenue recognized on June 29, 2021, during the fiscal year ended June 30, 2021, when the funds were received. The Rhode Island Commerce Corporation should have (1) delayed revenue recognition until when the funds were disbursed on July 1, 2021, during the year ending June 30, 2022, or (2) been recorded as unearned revenue to be recognized as of July 1, 2021. This appears to be an isolated incident and is not systemic.

Cause: There are multiple causes, including (1) the Rhode Island Commerce Corporation experienced significant turnover in accounting staff, including the loss of two chief financial officers during the year, and hiring two new personnel, (2) a significant increase in the volume of transactions and (3) the impact of the ongoing COVID-19 pandemic.

Effect: The Rhode Island Commerce Corporation's internal controls were unable, on a timely basis, to prevent, or detect and correct, a material error resulting in revenue being overstated by $1,000,000.

RECOMMENDATION

2021-036 We recommend that the Rhode Island Commerce Corporation review its revenue recognition policy to ensure proper recognition or deferral of amounts.

Management's Views and Corrective Actions:

Due to significant turnover at the CFO position, the relative inexperience of staff accountants, the considerable increase in transactions for federal grant programs, and new programs related to the ongoing pandemic, a cutoff transaction was not accounted for properly at year-end by the accounting staff. Rhode

Island Commerce Corporation has since hired a full-time CFO staring in early October 2021. Having a full-time CFO will provide consistent management oversight and experience to ensure the accounting staff manages revenue recognition appropriately at critical cut off points for reporting purposes.

<u>Anticipated Completion Date:</u> *Ongoing*

<u>Contact Person:</u> *Justin Medeiros, CFO*
Rhode Island Commerce Corporation
Justin.Medeiros@commerceri.com

Management Comments

Management Comment 2021-01 **(new comment)**

MONITORING DEPOSIT COLLATERAL, DIVERSIFICATION OF SHORT-TERM INVESTMENTS, AND RECORDING INVESTMENT ACTIVITY

The Office of the General Treasurer can enhance oversight of deposit collateral requirements and further diversify short-term investments. Functionalities to record the purchase and sale of short-term investments should be included in the statewide ERP system under consideration.

The State's cash and cash equivalent investments totaled nearly $3 billion at June 30, 2021. The State's overall cash position was enhanced due primarily to the advance receipt of significant federal funding under multiple COVID assistance related programs.

The State Investment Commission has adopted diversification policies to limit the percentage of short-term investments by type and issuer. Additionally, by policy, deposits with financial institutions must be collateralized (or secured by letter of credit or insurance) at 100% - 102% of the deposit balance. Adherence to these policies requires continual monitoring to ensure compliance.

The significant increase in the State's cash position was unprecedented and created challenges to seek sufficient placement options that balanced the objectives of safety, diversification and yield. Due to the significant cash balances during fiscal 2021, the State had over $500 million in one money market fund. We observed that deposits at one financial institution (approximately $2 million) were uncollateralized for a period of time.

Short-term investment purchases and sales are recorded initially independent of the State's RIFANS accounting system and the transactions are uploaded subsequently. Short-term investment activity must be recorded timely in the RIFANS accounting system to provide accurate and timely cash and investment balances. The short-term investment accounting system used to record the purchase and sale of investments was discontinued and an Excel-based workbook is now used. Excel workbooks and templates lack the control features typically built into software applications.

The State lacks an integrated cash management functionality to facilitate its cash management objectives and monitor compliance with short-term investment and collateralization requirements. Multiple external systems are used to manage those functionalities which increases complexity and risk. An integrated cash management functionality must be included in the ERP system under active procurement.

RECOMMENDATIONS

MC-2021-01a Diversify amounts held in money market mutual funds by increasing the number of funds used and explore other options to ensure safety and yield during the State's unprecedented increase in overall cash position.

MC-2021-01b Enhance monitoring of deposit collateralization requirements to ensure compliance.

MC-2021-01c Ensure an integrated cash management functionality is included in the ERP system under active procurement.

Management's Views and Corrective Actions:

MC-2021-01a: At FYE 22 we had one Government Money Market Mutual Fund available but were working to open more. We now have our balances in Mutual Funds spread over fairly evenly over 5 separate Government Money Market funds and are also working to establish the ability to Purchase US Treasuries which will further enhance our ability to diversify our holdings to ensure safety and yield.

MC-2021-01b: We are currently working on a system to better monitor and report on deposit collateralization requirements.

Anticipated Completion Date: *Fiscal 2022*

Contact Person: *Jeff Thurston, Cash Manager*
Office of the General Treasurer

MC-2021-01c: Treasury requested, but was not granted, a seat on the ERP RFP review committee. We have made it known to DOA/DoIT that we feel it is absolutely critical that Treasury be involved in the development of the financial component of the state's next ERP.

Anticipated Completion Date: *Fiscal 2023*

Contact Person: *Andy Manca, Chief Operating Officer*
Office of the General Treasurer

Management Comment 2021-02 (new comment)

AUTOMATED BANK RECONCILIATION SOFTWARE

The Office of the General Treasurer implemented automated bank reconciliation software to facilitate the reconciliation of the State's multiple bank accounts.

> The efficiencies expected through implementation of the bank reconciliation software have not been fully achieved since the larger high-volume bank accounts cannot be reconciled using the software.

The software used cannot reconcile all the State's bank accounts – those that cannot be reconciled are the larger high-volume disbursement accounts. Since the software is not integrated with the State's centralized accounting system, custom reports are extracted from the State's accounting system to provide the "book" transaction level data to be matched to bank activity. These higher volume bank accounts are reconciled manually which is more labor intensive and less controlled.

Use of software that is not integrated within the overall State accounting system requires extensive effort to provide the data needed to support the objective. Use of an integrated ERP solution (currently in procurement) with these included functionalities precludes the need to develop "work-around" solutions to meet these objectives.

RECOMMENDATIONS

MC-2021-02a Explore whether supplemental data extracts could be developed to support reconciliation of all bank accounts through the automated bank reconciliation software solution.

MC-2021-02b Ensure the ERP solution in procurement for the State includes an automated bank reconciliation functionality.

Management's Views and Corrective Actions:

MC-2021-02a: As our reconciliation software, Blackline, is working for the majority of our bank reconciliations, there are limitations that prevent us from importing supplemental data (i.e. Pooled cash subledger payment reporting) into the current software. For these types of accounts, the automated software we currently utilize is not capable to import data extracts other than BAI files directly from the banks, and transactional data directly from RIFANS ledgers. The goal is for the ERP solution to be more robust and designed to accommodate this type of data to be imported.

Anticipated Completion Date: *Fiscal 2023*

Contact Person: *Brian S. Conklin, Chief Fiscal Manager*
Office of the General Treasurer

MC-2021-02b: Treasury requested, but was not granted, a seat on the ERP RFP review committee. We have made it known to DOA/DoIT that we feel it is absolutely critical that Treasury be involved in the development of the financial component of the state's next ERP.

Anticipated Completion Date: *Fiscal 2023*

Contact Person: *Andy Manca, Chief Operating Officer*
Office of the General Treasurer

Management Comment 2021-03 **(new comment)**

EMPLOYEE DIRECT DEPOSIT AND VENDOR ACH BANK ACCOUNT CHANGES

Bank account payment information for both employees and vendors are susceptible to fraudulent or unauthorized changes.

Adequate controls must be in place to prevent unauthorized bank account changes and to ensure banking information of employees and vendors is protected from disclosure or unauthorized access. Two instances occurred during fiscal 2021 involving the unauthorized change of banking information - one for a vendor and one for an employee. The State moved promptly to claw back the payment made to an unauthorized bank account for the vendor and successfully recouped the payment. The employee payment was not successfully recovered and was reissued to the employee. Immediate steps were taken to enhance controls over the bank account change process for both vendors and employees.

Governments are often more susceptible to incidents of fraudulent "hi-jacking" of payments and change of banking information due to the vast amount of information made available through government transparency initiatives. Current accounting and payroll systems lack the more sophisticated control procedures needed to better authenticate valid bank account changes.

RECOMMENDATIONS

MC-2021-03a Assess current control procedures for authorizing change of banking information for vendors and employees compared to recommended best practice guidance.

MC-2021-03b Ensure the ERP software solution in procurement provides adequate controls over changes to vendor and employee banking information with multi-factor authentication functionality.

Management's Views and Corrective Actions:

MC-2021-03a: The process for authorizing change of banking information for vendors and employees was managed by the Purchasing department without Treasury insight into procedures or Processes. When Control weaknesses were discovered the Controllers office acted quickly to respond and contacted the Cash team for assistance in designing and implementing a new enhanced process including best industry practices. We were in the process of designing these enhanced processes and Procedures at FYE. The process has now been implemented and is working smoothly with collaboration from Purchasing, Accounts and Controls and Treasury.

Anticipated Completion Date: *Fiscal 2022*

Contact Person: *Jeff Thurston, Cash Manager*
Office of the General Treasurer

MC-2021-03b: Treasury requested, but was not granted, a seat on the ERP RFP review committee. We have made it known to DOA/DoIT that we feel it is absolutely critical that Treasury be involved in the development of the financial component of the state's next ERP.

Anticipated Completion Date: *Fiscal 2023*

Contact Person: *Andy Manca, Chief Operating Officer*
Office of the General Treasurer

Management Comment 2021-04 ***(repeat comment – 2020-03)***

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE (RIDHEA)

The remaining activities of the Division of Higher Education Assistance should be accounted for within the State's General Fund rather than as a discretely presented component unit.

In prior years, the predecessor Rhode Island Higher Education Assistance Authority had multiple activities including acting as the guaranty agency for federally insured student loans. With federal changes to those programs some years ago, a Division of Higher Education Assistance was created within the Office of the Postsecondary Commissioner (OPC). While the operational and financial aspects of the guaranty agency wound down, the Division continued to be reported as a discretely presented component unit with separately issued and audited financial statements. What now remains is essentially the disbursement of scholarship funds which originate from the State.

This activity could easily, and more appropriately, be reported within the State's General Fund rather than as a separate financial reporting entity. This would eliminate the additional accounting and financial reporting requirements currently maintained for the Division's operations. In addition, accounting for the scholarship and grant program within the State's General Fund would bring those operations under the State's centralized control processes, significantly improving the segregation of duties over program operations that are currently limited within the Division.

RECOMMENDATION

MC-2021-04 Account for the scholarship and grant activities of the Division of Higher Education Assistance – Office of Postsecondary Commissioner within the State's General Fund.

Management's Views and Corrective Actions:

With regard to the recommendation that the scholarship and grant activities of the Division of Higher Education Assistance – Office of the Postsecondary Commissioner be accounted for within the State's General Fund, management has taken this recommendation under advisement. The final decision to account for this activity in the general fund will coincide with the implementation of the ERP system.

Anticipated Completion Date: *A final decision to make this change will be completed on or before June 30, 2025.*

Contact Person: *Linda Makhlouf, Director of Program Administration, Budget/Finance Management*

Auditor Response: Implementation of this recommendation is not related to or facilitated by the implementation of a new statewide ERP system. RIDHEA's sole remaining function is to disburse funds that originate from the State's General Fund. The operating activities of the Office of Postsecondary Commissioner, exclusive of this one function, are already accounted for in the State's General Fund. The State disburses billions of dollars annually and need not transfer funds outside of an established control structure simply for disbursement purposes. The Division's functionality can remain but utilize the State's General Fund and established control procedures to disburse the funds. A separate financial reporting and audit requirement will thereby be eliminated for RIDHEA.

Management Comment 2021-05 **(repeat comment - 2020-07)**

FORMAT OF ENACTED BUDGET TO FACILITATE BUDGETARY CONTROL AND REQUIRED BUDGETARY FINANCIAL REPORTING

> The form and content of the State's annual operating budget should be enhanced to facilitate alignment with the specific funds used to account for activities and to provide more effective planning, management, and monitoring tools.

The State's financial statements include budgetary schedules to compare budgeted and actual results. The State prepares budgetary comparison schedules on a fund basis while the budget is enacted on a comprehensive, state-wide basis. Budgetary comparison schedules are prepared for the General Fund, Intermodal Surface Transportation Fund (IST), Temporary Disability Insurance Fund and RI Capital Plan Fund.

The format of the budget and the budgetary comparison schedules required for financial reporting purposes are not aligned. Because the enacted budget is presented on a comprehensive, state-wide basis, significant effort is required to disaggregate the budget data for comparison with the fund level information reported in the State's financial statements. In addition, certain budgetary resources and outlays on an individual fund budget presentation are omitted from the comprehensive budget presentation to avoid duplication.

Transportation activities included in the annual budget are so highly summarized (e.g., infrastructure-engineering) that it limits effective analysis of the budget as a financial compliance and management tool. Transportation funding and activities have significantly changed in recent years without changes in the budget presentation. The enacted budget does not include all the transportation related activity which is now accounted for within five separate special revenue funds which are combined for financial reporting purposes. A complete transportation budget which corresponds with all activity reported in the IST Fund is needed for this significant component of overall State operations.

The current format of the operating budget and the budgetary comparison schedules limits the effectiveness of the information provided as planning, management and monitoring tools. The budgetary comparison schedule preparation process is prone to error and requires significant year-end effort to ensure that the information is correct and corresponds to financial statement amounts and the enacted budget.

RECOMMENDATIONS

MC-2021-05a Improve the presentation of the budget amounts for transportation activities. Consider changes in the level of detail and include all transportation activity.

MC-2021-05b Include fund information within the budget to facilitate recording the budget in the accounting system and preparing budget-to-actual comparisons.

Management's Views and Corrective Actions:

Consistent with the Management Views published in response to MC-2020-07a and MC-2020-07b, the Budget Office worked with DOT and consulted with the State Auditor General, the House Fiscal Advisor and the Senate Fiscal Advisor to discuss and preview corrective actions.

Included with the January 2022 publication of the FY 2023 Governor's Budget Recommendations is a budgetary comparison schedule of similar format to that which is published in the State's Annual Comprehensive Financial Report. This can be found on page F-1 of the Technical Appendix volume of the budget books. The intention of this schedule is to facilitate financial reporting on a fund basis, while being consistent with the comprehensive, statewide annual appropriations bill. In addition to appropriated funding sources like gas tax, federal grants, and license/fee revenues, this schedule includes the anticipated expenditures from Fund 12-Intermodal Surface Transportation Fund that are transferred first from other funds, like Fund 22-Bond Capital Fund, Fund 27-GARVEE Bond Issues Fund, and Fund 21-RI Capital Plan Fund.

Anticipated Completion Date: *Ongoing*

Contact Person: *Joseph Codega, Budget Officer*

Management Comment 2021-06 ***(repeat comment – 2020-08)***

TOBACCO SETTLEMENT FINANCING CORPORATION

> 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.

The Tobacco Settlement Financing Corporation (TSFC) is a blended component unit of the State. The TSFC is unique in that it has no dedicated staff and meets its administrative and financial reporting responsibilities through staff within the Budget Office and Office of Accounts and Control. The Office of Attorney General manages specific legal issues related to the compliance and enforcement of the multi-state tobacco settlement agreement. TSFC engages a CPA firm to prepare TSFC's annual financial statements. While this is necessary, that firm cannot step into the role of management for the TSFC and serves only to compile the annual financial statements. Similarly, the TSFC's external auditor role does not extend to managing the entity or providing other administrative support.

We believe there is a need for greater administrative support for the TSFC to manage and coordinate required financial reporting tasks, act as a liaison to the Attorney General's office, stay current with bond rating changes for the various states that have issued tobacco settlement debt, and act as a liaison to bond counsel, the Corporation's fiscal advisor, and board members. These tasks likely do not require a full-time position but do require more attention, particularly since the Board meets infrequently, often just once annually to accept the annual audit.

Additionally, review of the TSFC's financial statements highlights the need to obtain an independent financial analysis of the TSFC's ability to support long-term debt service, specifically the deep discount debt that matures in more than 30 years. While projections of future tobacco settlement revenues have been prepared and used to support recent refinancing of certain tobacco bonds – an updated comprehensive analysis is necessary to provide board members and other State leaders with a current projection of the likelihood that sufficient resources will be available to support that future debt service.

The Corporation's financial statements at June 30, 2021 detail future debt service requirements totaling $2.5 billion with more than $1.5 billion due after year 2050. Currently, beyond required debt service reserves, the Corporation does not accumulate resources for future debt repayment – tobacco settlement amounts received in excess of required debt service are used for "turbo" or early redemptions.

The analysis should integrate the projections for US tobacco consumption and related settlement revenues with projections of the impact of turbo principal reductions and the amounts needed to service all TSFC debt.

RECOMMENDATIONS

MC-2021-06a Perform periodic analyses of projected debt service requirements reflecting actual operating experience and other economic factors.

MC-2021-06b Seek administrative support for the TSFC to facilitate financial reporting and other operating requirements.

Management's Views and Corrective Actions:

The Tobacco Settlement Financing Corporation (TSFC) Board agrees with the recommendations presented by the Auditor General. In fiscal year 2022, the Board established an administrative support function separate from the State Budget Officer and within the OFFICE OF ACCOUNTS AND CONTROL. This person will facilitate financial reporting requirements for TSFC. Additionally, a TSFC website is in development with the cooperation of the Division of Information Technology (DoIT) and will tentatively be up and running by the end of FY 2022 or beginning or FY 2023.

Anticipated Completion Date: *June 30, 2023*

Contact Persons: *Xiomara Soto, Financial Reporting Manager*
Office of Accounts and Control
Joseph Codega, TSFC Chair, OMB

Management Comment 2021-07 **(repeat comment – 2020-12)**

ESCROW LIABILITY ACCOUNT BALANCES

Monitoring and reconciliation of escrow liability account balances can be enhanced.

Various General Fund escrow liability accounts have been established to account for funds on behalf of others and/or pending distribution, General Fund escrow liability balances totaled $51 million at June 30, 2021. For escrow liability accounts, the assets and offsetting liabilities are included on the State's General Fund balance sheet but increases/decreases in these balances are not reported as fund revenues and expenditures nor are these balances subject to appropriation or budgetary controls.

Efforts to improve the monitoring and reconciliation of escrow accounts in recent years have included revising policies and procedures for agencies responsible for escrow liability accounts and reviews of account activity to ensure the proper account usage and accounting for the underlying funds within those accounts. While monitoring of escrow accounts improved in fiscal 2021, we noted the following exceptions:

- Certain reconciliations were not prepared/received from state agencies prior to the close of the fiscal year in accordance with policies and procedures to ensure that such amounts were accurately and appropriately reflected in the general ledger.

- There was insufficient resolution of reconciliation differences for certain accounts.

Timely review and reconciliation of escrow liability accounts is important to ensure that transactions and balances in RIFANS are properly recorded for financial reporting purposes and to exercise appropriate fiduciary control over amounts held for others. When other agencies fail to support the reconciliation effort or there are unreconciled variances, the Office of Accounts and Control should have the authority to suspend account disbursements until resolved.

RECOMMENDATION

MC-2021-07 Enforce monitoring and reconciliation control procedures for escrow liability account balances.

Management's Views and Corrective Actions:

The Office of Accounts and Control (A&C) has been instrumental in strengthening escrow account internal controls over the past two years, as stated below:

- *All material escrow accounts have been reviewed to determine if they are appropriately classified as escrow accounts and those determined not to be escrow accounts have been reclassified to a more appropriate natural account category.*

- *An escrow account reconciliation form has been designed, which the agencies must prepare on a regular basis. Those reconciliations are required to be submitted to A&C at the end of each fiscal quarter.*

- *A&C has implemented procedures to monitor timely receipt of the end of fiscal quarter reconciliations.*

- *An escrow account request form must be completed by the agency and approved by A&C before a new escrow account can be created in RIFANS.*

Despite A&C efforts, certain reconciliations were not received in a timely manner. A&C sends out reminders to the agencies prior to when the quarterly reconciliations are due, closely monitors which agencies have not submitted their reports by the deadline, and assertively follows-up with those agencies. A&C will continue *to monitor the timely submission of reports and follow-up with any agencies who do not submit their reports on time. Additionally, management agrees that certain reconciliations have variances that cannot be easily reconciled. A&C is currently monitoring the progress of the agencies responsible for these reconciliations.*

Anticipated Completion Date: *Ongoing*

Contact Person: *Xiomara Soto, Financial Reporting Manager*
Tara Mello, Assistant Controller – Finance
Office of Accounts and Control

Management Comment 2021-08 **(repeat comment – 2020-013)**

UNRESOLVED BALANCE IN THE PUBLIC SERVICE CORPORATION TAX ESCROW ACCOUNT

Efforts should continue to resolve the unidentified remaining balance in the public service corporation tax escrow account.

Telecommunication companies annually declare the net book value of their tangible assets located in Rhode Island to the Division of Municipal Finance in accordance with Rhode Island General Law § 44-13-13. The Division of Municipal Finance calculates and collects the tax due and distributes the proceeds (net of a 0.75% administrative fee) to the municipalities based on percentage of population.

The collection and disbursement of the tax proceeds are accounted for in an escrow liability account. The telephone tangible tax escrow account continues to show an unresolved account balance that has grown year over year resulting in a balance of $5.6 million at June 30, 2021.

Efforts were made during fiscal 2021 to determine the underlying cause of the growth in the balance without resolution. A portion of the balance can be attributed to the 0.75% administrative fee which has not been transferred from the account for multiple years.

RECOMMENDATION

MC-2021-08 Determine the cause of the unresolved account balance in the Public Service Corporation Tax escrow account and make any required adjustments or distributions.

Management's Views and Corrective Actions:

Department of Revenue will continue to work with Accounts and Control to review the Public Service Corporation Tax Escrow account. In conjunction with Accounts and Control we will work on the unresolved balance.

Anticipated Completion Date: *December 2022*

Contact Persons: *Steve Coleman, Chief - Division of Municipal Finance*
Jane Cole, CFO, Department of Revenue

Management Comment 2021-09 ***(previously reported as Finding – 2020-015)***

DIVISION OF TAXATION – CONTROLS OVER COUNTER TAX COLLECTIONS

Controls should be improved over the counter tax collections accepted at the Division of Taxation by upgrading the cashiering technology and integrating that functionality into the Division's STAARS system.

Most tax payments are received electronically or through mail payments, however, some taxpayers make payments in person at the Division of Taxation. Such payments totaled approximately $42.1 million in fiscal 2021. A cashiering application was internally developed more than a decade ago that lacks appropriate information technology controls. Additionally, the cashiering application is not integrated with the Division's STAARS system.

Adequate application controls must be in place to ensure taxpayer payments are properly recorded and identifiable to the individual employee processing the transaction. The cashiering application lacks an appropriate audit trail to identify the employee performing the transaction, sufficient password access controls, and data back-up procedures. The system is not integrated with STAARS. A manual process is required to create the transaction record so it can be scanned and processed to post to the taxpayer's account.

RECOMMENDATION

MC-2021-09 Complete the planned application implementation and related technology upgrades used to process counter payments at the Division of Taxation and ensure the cashiering application is integrated with the Division's STAARS system.

Management's Views and Corrective Actions:

The Division of Taxation agrees with this recommendation and continues to actively work on addressing this finding. Upon detailed review of the public technology solutions available pursuant to the procurement process and a determination that the technology solution would not meet the needs of the agency, the Division of Taxation conducted an internal new requirements gap analysis, created a high-level design to integrate cashiering functions with STAARS (including an audit trail), and is in the process of implementing that design. Additionally, the Division of Taxation has completed the implementation of all types of cashier deposits into the high-volume scanner deposit process, which will reduce the amount and number of deposits made through the cashier.

Anticipated Completion Date: *June 30, 2022*

Contact Persons: *Neena S. Savage, Tax Administrator*
Rahul Sarathy, Division of Taxation
Daniel Clemence, Division of Taxation
Kristin Cipriano, Division of Taxation

Management Comment 2021-10 ***(repeat comment – 2020-014)***

OTHER POSTEMPLOYMENT BENEFIT (OPEB) FUNDING POLICIES

Comprehensive Funding Policy

A formal funding policy should be adopted for the State's OPEB plans which incorporates statutory provisions and key actuarial funding policies, including the frequency of actuarial audits and experience studies

Previously, accounting guidance was also used as the basis for "acceptable" funding policies with GASB defining acceptable actuarial methods, amortization periods, etc. Under current guidance (GASB Statements 74 and 75), GASB only defines the **accounting** and disclosure requirements for OPEB liabilities to be included in the financial statements of governments. For example, the accounting measures for determining the net OPEB liability to be included in a government's financial statements reflects the fair value of OPEB plan assets at that date. For funding purposes, most plans use "asset smoothing" that tempers the volatility in required contribution rates due to significant market valuation changes in any one year.

Consequently, most governments need a separate policy statement to guide their funding decisions over time, while using the accounting measures in their financial statements prepared in accordance with generally accepted accounting principles. Best practices include recommending that governments establish and adopt comprehensive OPEB funding policies, which outline all the key provisions designed to responsibly fund an OPEB plan and calculate the employer actuarially determined contribution.

In Rhode Island, OPEB funding policies are a combination of legislatively enacted statutes and other measures adopted by the Board of the State Employees' and Electing Teachers OPEB System. This requires accumulation of comprehensive OPEB funding policies that include statutory measures and other provisions adopted by the Board.

Policy for Actuarial Experience Studies and Actuarial Audits

Best practices for benefit plan administration include requiring periodic actuarial experience studies and actuarial audits. Experience studies are a regularly scheduled review of the reasonableness of the assumptions used in making the actuarial valuations of the plans and involves a more comprehensive investigation of actual experience and assumptions used in the valuations. The Employees' Retirement System of Rhode Island (ERSRI) directs its actuary to perform experience studies of the pension system every three years. Actuarial audits are also recommended and involve engagement of another independent actuary to either reperform or review the actuarial valuations results. ERSRI has an actuarial audit performed at five-year intervals. These practices ensure that the assumptions used to measure the net OPEB liability (asset) of the plans and determine annual employer contributions are appropriate and that such measures have been determined consistent with the Actuarial Standards of Practice.

RECOMMENDATIONS

MC-2021-10a Develop and adopt a formal OPEB funding policy that incorporates statutory provisions as well as funding and actuarial policies approved by the Board of the State Employees' and Electing Teachers OPEB System.

MC-2021-10b Adopt a formal policy for requiring periodic actuarial experience studies and actuarial audits for the OPEB plans within the State Employees' and Electing Teachers OPEB System.

Management's Views and Corrective Actions:

The OPEB Board agrees with the recommendations presented by the Auditor General. The OPEB Board is currently in a transition phase due to the recent retirement of its chairperson. The Board is also in the process of contracting a new actuary as the contract with the current actuary is near its expiration date. Once these two processes are completed, the OPEB Board will engage its new actuary to assist in developing funding and actuarial policies for review and approval by the OPEB Board. In Fiscal year 2019, the OPEB Board adopted a policy to prepare annual actuarial studies and will work on establishing a policy to implement experience studies and actuarial audits within the next fiscal year.

Anticipated Completion Date: *June 30, 2023*

Contact Persons: *Xiomara Soto, Financial Reporting Manager,*
Office of Accounts and Control
Joseph Codega, State Budget Officer, OMB
Dorothy Pascale, State Controller, Office of Accounts and Control

Management Comment 2021-11 ***(repeat comment – 2020-015)***

INCREASE USE OF AUTOMATED CLEARINGHOUSE (ACH) PAYMENTS

The State should continue to convert more disbursements to ACH and reduce the volume of checks and wire transfers

The State utilizes checks, ACH payments, and wire transfers to disburse payments. For fiscal 2021, approximately 68% of RIFANS disbursements were processed as check payments while 31% were ACH and 1% were made through wire transfers. Disbursements are also processed through other systems utilized by the State. For example, most Medicaid provider payments are processed as ACH disbursements and most benefit payments are processed as electronic benefit payments.

The processing and banking costs vary for each payment type with wire transfers being the costliest. ACH bank processing costs, per transaction, are the lowest at $.02 per item. Wire transfers are typically utilized for the most time sensitive payments. Checks involve printing, mailing, and reconciliation costs in addition to a higher per transaction banking cost.

ACH payments are controlled entirely through the accounting system and require the least amount of other administrative processing steps. Most disbursements can be scheduled for payment as ACH transactions adding predictability to the State's overall cash management objectives.

Recently implemented industry-wide enhancements to the ACH process allow more flexibility in scheduling and the subsequent settlement of ACH payments such that same-day ACH is achievable for individual ACH transactions up to $25,000. Exploring these features may enhance the State's ability to enhance the volume of payment made through ACH.

RECOMMENDATION

MC-2021-11 Explore options to increase the use of ACH payments in lieu of checks and wire transfers. Utilize industry-wide changes which allow same-day ACH to facilitate timely payments and funds transfer.

Management's Views and Corrective Actions:

Management has attempted to increase the use of ACH payments, however, without a more automated process between vendor registration and account verification there will not be a significant increase in ACH payments. Additionally, the one-day ACH payments would require changes to internal processes and could actually result in additional fees. As banks continue to work to improve their verification capabilities, the State will evaluate the process.

Anticipated Completion Date: *Ongoing*

Contact Person: *Louise Sawtelle, Associate Controller, Office of Accounts and Control*

Management Comment 2021-12 ***(repeat comment)***

ACCOUNTING CONTROLS OVER CAPITAL PROJECTS

> Controls over accumulating capital asset additions for project-based, multi-year projects can be improved. Certain project-based expenditures are reclassified in the accounting system to meet capital asset system processing requirements. This results in a change to the original and appropriate expenditure object classification.

Many of the State's material capital assets are project-based rather than single item acquisitions. The process developed within the RIFANS accounting system to identify capital expenditures is based on activity in specific natural accounts. Consequently, expenditures are frequently reclassified to the specific capital outlay natural accounts to trigger recording in the capital assets module. For project-based expenditures that involve a variety of types of expenditures, the original character of the underlying expenditures is subsequently lost in the accounting system. For example, on a building project, amounts spent for architectural and engineering services would be reclassified and lose their original character. Similarly, on a large IT development project like UHIP/RIBridges, many of the project-based expenditures were reclassified to the capital outlay natural accounts from information technology and consulting natural accounts.

As many of the State's material capital asset acquisitions involve project-based expenditures, the State's procedures for accumulating such costs should accommodate a project based rather than individual asset acquisition approach. The original character of expenditures should remain even when accumulated as a project-based capitalized item.

The RIFANS capital asset module is programmed to flag expenditures in designated natural account codes as potential capital asset additions. This works well for single capital items but not as effectively for projects that involve multiple categories of expenditures and span more than one fiscal year. Independent processes have been developed which include accumulation of project costs on spreadsheets external to RIFANS. This process is manually intensive and can lead to error or omission of capital projects if system coding or system query is not performed accurately.

RECOMMENDATION

MC-2021-12 Implement a project-code accumulation of capital outlay expenditures within the capital asset module.

Management's Views and Corrective Actions:

Given the inherent limitations of the capital asset module software and time constraints, management does not consider it practical to pursue this recommendation at this time. Management agrees that it would be more efficient if the capital assets module afforded the flexibility to automatically accumulate capital asset project expenditures in enough detail to capture the underlying character of the various expenditures. In addition, management believes the independent processes which are mentioned in the management comment are sufficient to mitigate risks of material error or omission. This recommendation will be considered during ERP implementation.

Anticipated Completion Date: *Ongoing*

Contact Person: *Sandra Morgan, Assistant Director for Special Projects, Office of Accounts and Control*

Management Comment 2021-13 ***(repeat comment – 2020-017)***

STATE FLEET REPLACEMENT REVOLVING LOAN FUND

> Operating and accounting procedures for the State Fleet Replacement Revolving Loan Fund require review to ensure that fund operations are consistent with its statutory purpose as a revolving loan fund.

The State Fleet Replacement Revolving Loan Fund was created to act as an internal financing mechanism for vehicles by state agencies. Use of the fund mitigates the budgetary impact of purchasing a vehicle in one fiscal year and spreads the cost over the vehicle's service period. The fund records an internal loan receivable from the state agency acquiring the vehicle. Loan payments replenish funds available for new loans and vehicle acquisitions. Most of the functions of the fund are currently performed by the Budget Office in connection with its responsibilities for capital budgeting.

Establishment of loans receivable and repayments terms should be formalized and documented to enhance controls over the operation of the revolving loan fund. Operating and accounting procedures for vehicles acquired/financed through the revolving loan fund should be consistent with the State's capital asset accounting procedures and the process to prepare the State's government-wide financial statements.

Operating and accounting procedures need to be reviewed and aligned to formalize loan repayment terms and avoid unintended complications in the State's capital asset reporting and government-wide financial statement preparation. Responsibility for the fund's accounting procedures and records should be transferred from the Budget Office to the Central Business Office or the Office of Accounts and Control.

Operating and accounting procedures were not appropriately established at fund creation. In most instances, the department or agency acquiring the vehicle purchases through their accounts and an expenditure credit is later processed to reimburse the expenditure from the revolving loan fund. This results in an unintended misstatement in the State's government-wide (full accrual) financial statement, as the fund level activity is collapsed and converted to the full-accrual accounting basis.

RECOMMENDATIONS

MC-2021-13a Perform a comprehensive review of the operational and accounting procedures for the State Fleet Replacement Revolving Loan Fund.

MC-2021-13b Transfer responsibility for the daily operations of the fund to the Central Business Office or the Office of Accounts and Control.

Management's Views and Corrective Actions:

Beginning Calendar year 2022 the Office of Accounts and Control created a new Financial Reporting Manager position, focusing on the Internal Service Fund, including the State Fleet Replacement Revolving Loan Fund. One of the duties of this new position is to manage and prepare loans and process annual billings for the State Fleet Revolving Loan Fund.

With this transition of duties, the State Budget Office will no longer be responsible for the establishment of the loan's receivable and repayments process. The operating and accounting procedures will be reviewed to make the process consistent with the State's capital asset accounting procedures. The State Budget Office will still be responsible for the allocation of loan fund resources as part of the annual capital budget plan in consultation with State Fleet Operations.

Anticipated Completion Date: *June 2022*

Contact Person: *Martires Mullins, Financial Reporting Manager*
Office of Accounts and Control

Management Comment 2021-14 **(repeat comment – 2020-018)**

SUBRECIPIENT AND GRANTEE MONITORING - CENTRALIZED REVIEW OF AUDIT REPORTS

Required monitoring of subrecipients and other State grantees could be made more effective and efficient by centralizing certain monitoring aspects at a statewide rather than department-wide level.

Subrecipients and grantees assist the State in carrying out various programs funded with State and/or federal monies and include entities such as municipalities, community action programs, local educational agencies and non-profit organizations. Monitoring of subrecipients, which is required when the State passes through federal funds to another entity, varies depending on the nature of the program or activity but always should include review of subrecipient audit reports. Federal regulations require any entity that expends $750,000 or more in federal assistance [direct or pass-through (e.g., State)] to have a Single Audit performed. Copies of the Single Audit Reports must be provided to the pass-through entity and the federal government.

Receipt and review of subrecipient or grantee audit reports is now performed on a decentralized basis as responsibility is vested in numerous departments. The State can improve, and make more efficient, its subrecipient and grantee monitoring practices by centralizing the audit report review function.

The State is planning a grants management system which includes specific functionalities to enhance controls over grant awards and monitoring activities for subrecipients. Centralized review of subrecipient audit reports would appear to be consistent with the planned functionalities of the new grants management system.

We have reported various deficiencies in the process used to review subrecipient audit reports. Considerable advantages can be gained by centralizing the subrecipient and grantee monitoring function within one unit of State government. This will raise the level of assurance that subrecipients and grantees comply with applicable laws and regulations and both state and federal funds are spent as intended. It will also reduce the amount of resources devoted to this effort and achieve other efficiencies.

RECOMMENDATIONS

MC-2021-14a Centralize subrecipient and grantee monitoring procedures related to receipt and review of Single Audit Reports and other audit reports within one agency. This function should be staffed with individuals trained in governmental accounting and auditing matters to allow effective review of the audit reports.

MC-2021-14b Build a database of all subrecipient and grantee entities that receive state and/or federal grant funding.

Management's Views and Corrective Actions:

The Grants Management Office recognizes the risks and control weaknesses noted.

The Uniform Grant Guidance (UGG) (2 CFR 200.332) defines the requirements for pass through entities for subrecipient monitoring, including single audit review. The federal Office of Management and Budget in revisions to the Uniform Grant Guidance (Federal Register Notice 2019-OMB-0005) provided further clarification on these requirements and responsibilities.

Specifically, the Office of Management and Budget clarifies that pass though entities are only responsible for resolving audit findings specifically related to their subaward. In addition, if a subrecipient has a current single audit report posted in the Federal Audit Clearinghouse and has not otherwise been excluded from receipt of federal awards, the pass though entity may rely on the subrecipient's auditors and cognizant agency's oversight for routine audit follow-up and management decisions. Finally, the UGG states that such reliance does not eliminate the responsibility of the pass-through entity to manage risk through subaward monitoring.

Given the UGG changes, we will not be adopting the recommendation as stated. However, we will mitigate risk and increase controls through the development and implementation of a statewide subrecipient *monitoring protocol which will include risk assessment, desk and/or onsite monitoring, and follow-up on relevant audit findings.*

The implementation of the Grant Management System will result in a comprehensive database of state grantee awards, subrecipients, and subawards, including monitoring activities. Subrecipients will be users of the Grants Management System. Subrecipient data, i.e., risk assessments, monitoring, and single audits and alternative financial audits will be viewable to all state agency grant managers. We expect the implementation of the Grant Management System will facilitate coordination and communication among state agencies, and between state agencies and subrecipients.

Anticipated Completion Date:	*GMS is expected to go live by October 31, 2022. Adoption of a statewide subrecipient monitoring protocol will be completed by 11/7/22. Due the variety and nature of existing awards we recognize some programs may take several award cycles to transition to the new protocol.*
Contact Person:	*Steve Thompson, Director, Grants Management Office* *Office of Accounts and Control*

Management Comment 2021-15 (repeat comment-2020-19)

SURPLUS FURNITURE AND EQUIPMENT

> Improve the awareness and communication of available surplus furniture and equipment by creating a searchable, web-based functionality.

The State disposes of and replaces various capital assets during the normal course of operations. State departments and agencies are required to report assets deemed surplus to the Office of Accounts and Control (for accounting purposes) and ultimately to the “surplus property officer”. The intent is that capital assets declared surplus by one agency could potentially be used by another State agency, municipality, or local school district, etc.

While the surplus property reporting process is in place, there is no practical means for other State agencies, municipalities, or school districts, etc., to learn of the availability of assets deemed surplus that are now available for potential use. Clearly, not all assets declared surplus are usable and, particularly in the case of computer equipment, may be outdated technologically. However, establishing a searchable database of surplus assets would greatly increase the likelihood that still useful assets could be matched to those with a potential need.

RECOMMENDATION

MC-2021-15 Implement a statewide network or database of “surplused” furniture and equipment assets to facilitate notification and use by other state or local entities.

Management’s Views and Corrective Actions:

Management agrees with the recommendation and has entered into a contractual agreement with GovDeals® to inventory all State surplus assets and post the available inventory to the DCAMM website: dcamm.ri.gov/services/surplus-property-request.php

Available surplus inventory will be available to both State and Municipal agencies prior to public auction.

Anticipated Completion Date:	*September 2022*
Contact Person:	*Artie Jockmann* *Division of Capital Asset Management & Maintenance*

Management Comment 2021-16 ***(new comment)***

PRIVATE ENTITY USAGE OF STATE PROPERTIES

Complete an inventory of leases or arrangements where the State has approved private entities to utilize space within State buildings. Ensure that all such arrangements are formalized, approved, and centrally administered by the State.

The State, on occasion, has provided space in State buildings to private entities for a host of purposes. This situation has evolved over time as the Division of Capital Asset Management and Maintenance (DCAMM) has been either requested or directed to provide such space by various State authorities. Instances range from non-profit entities deemed to provide important public services to office space for private contractors providing services to the State (i.e., system maintenance and operation). The State does not currently have a complete listing of these arrangements and in some instances, the use arrangements have not been documented in a formal lease agreement.

In addition, the process for the granting of facility use by private entities is not formalized in statute or policy to ensure consistent application across State government. Whether such arrangements would require approval of the State Properties Committee is unclear. There are also procurement considerations since whether the State is providing space at a no-cost or reduced cost basis to the successful proposer would impact the development of a competitive bid proposal. In instances where the use of State properties relates to a procurement of services by the State, such considerations should be formalized within the request for proposal to ensure the consistency of bid proposals submitted by interested entities.

The DCAMM – Department of Administration should:

- Identify all arrangements where private entities utilize State property, the nature of the required usage (i.e., statutorily required, contractually required, public service), and any existing agreements documenting the usage with the private entity.

- Develop a formalized request process for State agencies to request the use of State property by a vendor/ grantee/non-profit entity including justification and specific usage purposes and space requirements proposed for the entity.

- Adopt specific policies as to how such requests will be vetted and approved (e.g., is State Properties Committee approval necessary).

- Develop standardized lease arrangements that specify all costs and requirements of the private entity using the property.

- Adopt policies that require initial and periodic updates of agreements with the private entities utilizing State properties including the appropriate legal review of such agreements.

- Ensure that all agreements are centrally managed within the Department of Administration to ensure that all operational risks associated with that property are addressed based on the nature of the usage awarded. Assess the adequacy of existing insurance coverage in light of building use contemplated by the vendor/grantee/non-profit entity.

The State's implementation of GASB Statement No. 87, *Leases*, in fiscal 2022 will require the State to consider and account for all lease arrangement under the new standard and will be negatively impacted by any arrangements that lack proper and current documentation. Further, the current practice does not provide adequate centralization to ensure that operational risks (i.e., insurance coverage, public health and safety) are well managed by the State.

The above improvements will allow the State to better manage its State properties and ensure that such arrangements are properly considered from a financial reporting and operational standpoint. Implementing a more formalized application and approval process will also provide the necessary transparency and consistency for such arrangements that is needed for an organization of the State that has centralized its management of State properties.

RECOMMENDATIONS

MC-2021-16a Identify all arrangements where private entities utilize State property, the nature of the required use (i.e., statutorily required, contractually required, public service), and any existing agreements documenting the usage with the private entity.

MC-2021-16b Formalize policies and procedures to ensure the consistent application, approval, documentation, and centralized administration of all State property lease arrangements with private entities.

Management's Views and Corrective Actions:

MC-2021-16(a) - We agree with this recommendation and have already begun corrective action. A&C has dedicated resources for the implementation of GASB 87 Leases. As part of the adoption of this pronouncement, A&C has requested detailed lease information from all departments and agencies which includes copies of existing agreements. This information will be shared with the Auditor General during the FY 22 audit.

Anticipated Completion Date: *June 30, 2022*

Contact Person: *Starria Sumner, Supervisor of Fiscal Services*

MC-2021-16(b) - We agree with this recommendation. The Division of Capital Asset Management and Maintenance (DCAMM) will establish and formalize policies and procedures to ensure the consistent application, approval, and documentation, of all private party lease arrangements. This documentation will include required information as noted above.

Anticipated Completion Date: *August 31, 2022*

Contact Person: *David Patten, Director*
Division of Capital Asset Management and Maintenance

Prior Year Findings in Implementation Status

AUDITOR GENERAL
HOPE
STATE OF RHODE ISLAND

Finding 2020-011

MONITORING RESPONSIBILITY FOR FUNDS ON DEPOSIT WITH FISCAL AGENTS

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

RECOMMENDATION

2020-011 Complete implementation of effective oversight and monitoring responsibilities for funds on deposit with fiscal agents.

STATUS: ***The Office of the General Treasurer implemented enhanced monitoring procedures for funds on deposit with a fiscal agent (trustees) shortly after the close of fiscal 2021.***

Finding 2020-18

RHODE ISLAND HIGHER EDUCATION SAVINGS TRUST (RIHEST) – FINANCIAL REPORTING - OMNIBUS ACCOUNTS

The auditors for the RIHEST identified a control weakness for certain participant accounts maintained by third-party investment firms.

RECOMMENDATION

2020-25 This matter was identified during our audit of RIHEST's basic financial statements as of and for the fiscal year ended June 30, 2019, when there was only one omnibus partner, and was not corrected during the year ended June 30, 2020. We recommend that the Program Manager develop control processes to ensure periodic reconciliations of balances and transactions on its recordkeeping platform with those on the recordkeeping platforms of the omnibus partners. This reconciliation process should also include a verification of the accuracy of financial reports that are critical to plan wide financial reporting.

STATUS: ***Resolution of this finding is ongoing with the RIHEST Program Manager and Omnibus partners (third-party investment firms). At June 30, 2021, these account balances totaled $219 million, which represents approximately 4.1% of fiduciary net position.***

Management Comment 2020-01

ADVANCES TO PROVIDERS OF SERVICES FOR INDIVIDUALS WITH DEVELOPMENTAL DISABILITIES

Advances outstanding to providers of services for individuals with developmental disabilities need to be permanently resolved. During fiscal 2020, these advances were not reduced by the sale proceeds from State-owned group homes as required by the General Laws.

RECOMMENDATIONS

MC-2020-01a Seek a permanent resolution of the status of the advances to providers of services to developmentally disabled individuals.

MC-2020-01b Ensure use of proceeds from the sale of State-owned group homes to reduce startup capital advance amounts for providers of services to developmentally disabled individuals.

MC-2020-01c Discontinue annual advances made to providers of services for individuals with developmental disabilities.

STATUS:	***Balances were reduced in fiscal 2021 by the proceeds from the sale of group homes and management has proposed writing off the remaining balance of outstanding advances to providers.***

Management Comment 2020-02

SCHOOL BUILDING AUTHORITY CAPITAL FUND - BOND PROCEED TRANSFERS TO RIHEBC

The process of disbursing School Building Authority funds to local educational agencies through the RI Health and Educational Building Corporation (RIHEBC) should be reviewed and potentially reconsidered.

RECOMMENDATION

MC-2020-02 Establish procedures to limit bond proceed transfers to RIHEBC for disbursement to LEAs to amounts approved for immediate disbursement by the School Building Authority.

STATUS:	***Procedures to better match the timing of bond proceed transfers to RIHEBC are in process. Statutory changes would be required to allow direct payment of bond proceeds by the State to LEAs.***

Management Comment 2020-06

DIVISION OF TAXATION – STAARS FINANCIAL REPORTING IMPACTS

Processing functionalities within the 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.

RECOMMENDATIONS

MC-2020-06a Continue to utilize advanced analytical tools to (1) prioritize resolution efforts for items included on the posted exception report, and (2) apply a system resolution to groups of returns to reduce the number of returns requiring staff intervention.

MC-2020-06b Perform additional analysis at fiscal close to identify unusual items requiring immediate correction, reduce the overall volume where possible, and to support year-to-year comparison of the volume of suspended returns pending clearance by category.

STATUS:	***Returns in suspense pending resolution is in a stable and normally expected status. The Division is employing appropriate and flexible prioritization tools to manage returns requiring resolution.***

Management Comment 2020-09

LEGAL CASE TRACKING

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

RECOMMENDATION

MC-2020-09 Implement the recently acquired organization-wide legal case tracking software to facilitate tracking and oversight of State legal matters throughout the organization.

STATUS:	***The legal case tracking system is in implementation status with rollout to departments and agencies.***

Management Comment 2020-11

RHODE ISLAND PUBLIC TRANSIT AUTHORITY

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 within the State

RECOMMENDATION

MC-2020-11 Enhance oversight of RIPTA and explore options to address the critical operating and long-term liability funding issues facing the Authority.

STATUS: ***RIPTA has made the delinquent contributions to its pension plan, in part due to improved financial position resulting from federal COVID related assistance for transit authorities. OPEB liabilities continue to be funded on a pay-as-you-go basis rather than advance funded.***