STATE OF RHODE ISLAND

FINDINGS AND MANAGEMENT COMMENTS

Resulting from the Audit of the
State of Rhode Island's
Fiscal 2022 Financial Statements

David A. Bergantino, CPA, CFE

Interim Auditor General

State of Rhode Island
General Assembly
Office of the Auditor General

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March 14, 2023

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, 2022 and have issued our report thereon dated January 31, 2023 in the State's Annual Comprehensive Financial Report for fiscal 2022.

As required by *Government Auditing Standards,* we have also prepared a report, dated January 31, 2023 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:

- 35 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 10 management comments resulting from our audit of the financial statements which are less significant issues that still warrant the attention of management.

Our *Single Audit Report* for fiscal 2022 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,

David A. Bergantino

David A. Bergantino, CPA, CFE
Interim Auditor General

FINDINGS AND MANAGEMENT COMMENTS

AUDIT OF THE STATE OF RHODE ISLAND's FISCAL 2022 FINANCIAL STATEMENTS

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EXECUTIVE SUMMARY

The State has begun planning for the implementation of a comprehensive Enterprise Resource Planning (ERP) system to replace and enhance key statewide financial and administrative systems. The scope and complexity of this implementation and the required resources and disciplined project management needed to ensure success should not be underestimated. The implementation should focus on ensuring a successful outcome through effective management of critical risks. The State should specifically minimize customization of the cloud-based ERP solution being employed and the amount of disparate IT solutions that it attempts to integrate into its full ERP design. Such changes can often limit the desired integration of the ERP system and significantly complicate the maintenance and support of the system going forward.

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, 2022. 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, especially the Pandemic Unemployment Assistance benefits. While decreased from the prior year with expanded pandemic benefits ending in September 2021, the Department of Labor and Training still identified significant amounts of fraudulent benefits paid to claimants. The State's system for payment of unemployment insurance claims and collection of employment taxes is outdated and needs further modernization.

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, 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 activity - representing nearly 37% of the State's General Fund expenditures. The State will need to ensure that the design of the next Medicaid Management Information System will provide the functionalities needed to enhance controls over program operations and fiscal oversight.

Fiscal closing procedures at the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals need improvement to ensure the completeness and accuracy of reported accruals at year-end.

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 its design and operation. 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 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.

Controls over the preparation of the Schedule of Expenditures of Federal Awards (SEFA) can be enhanced to ensure all program activity is accurately reported to the proper Assistance Listing Number and amounts passed through to subrecipients are appropriately classified and reported.

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.

A significant number of material audit adjustments were required during our audit of the State's fiscal 2022 financial statements. Material audit adjustments are indicative of weaknesses in controls over the preparation of financial statements.

The complexity of Treasury operations has increased substantially over the years without significant modifications to the State's investment in technology and personnel to support those efforts and to ensure internal control best practices are maintained.

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

The State needs to improve its documentation of processes relating to the preparation of the government-wide financial statements.

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.

Within the Intermodal Surface Transportation Fund, 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.

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 dispose of recorded infrastructure assets when retired or replaced.

The State updated its current cyber security readiness and has begun to identify risk mitigation priorities and the resources needed to implement necessary corrective action. The State does not currently have sufficient resources dedicated for the size and complexity of State operations and risk mitigation is not progressing quickly enough.

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 State's current practices for periodic logical access and privilege reviews at both the application and network levels need improvement. Practices for database logging and monitoring at the database level also need improvement.

In addition to findings that impact Statewide controls over financial reporting and information security, our report includes findings specific to the Rhode Island Lottery, Employees' Retirement System of Rhode Island, and Rhode Island State Employees' and Electing Teachers OPEB System.

Our report includes control deficiencies and material noncompliance reported by the independent auditors of the discretely presented 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 10 management comments that highlight opportunities for enhancement of financial-related operational, policy or accounting control matters.

The scholarship disbursement function of the RI Division of Higher Education Assistance does not merit administration as a separate financial reporting entity and the lack of Division personnel prevent segregation of duties within its financial operations. The remaining activities of the Division 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.

Management's response to the findings and comments, including planned corrective actions, are detailed in our report.

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

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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, 2022, 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 31, 2023. 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 5% of the revenues of the aggregate remaining fund information;

- the Convention Center Authority, a major fund, which represents 32% of the assets and deferred outflows and less than 2% 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 26% of the assets and 1% 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.

Report on 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,
State of Rhode Island

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 2022-001, 2022-002, 2022-003, 2022-005, 2022-008, 2022-009, 2022-010, 2022-012, 2022-016, and 2022-019. 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 2022-027, 2022-031, 2022-033, and 2022-034.

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 2022-004, 2022-006, 2022-007, 2022-011, 2022-013, 2022-014, 2022-015, 2022-017, 2022-018, 2022-020, 2022-021, 2022-022, 2022-023, 2022-024, 2022-025, and 2022-026. 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: 2022-028, 2022-029, 2022-032, 2022-035, and 2022-036.

Report on 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 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 2022-002. 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 2022-030.

State's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the State's responses to the findings identified in our audit and described in the accompanying schedule of findings and responses. The State's responses were not subjected to the other 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.

David A. Bergantino

David A. Bergantino, CPA, CFE
Interim Auditor General
January 31, 2023

SCHEDULE OF FINDINGS AND RESPONSES

INTERNAL CONTROL OVER FINANCIAL REPORTING - STATEWIDE

AUDIT STANDARD:

Management is responsible for a.) the preparation of the financial statements in accordance with the applicable financial reporting framework, and b.) the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Finding 2022-001	***(material weakness – repeat finding – 2021-001)***

IMPLEMENTATION OF AN ENTERPRISE RESOURCE PLANNING (ERP) SYSTEM TO ADDRESS THE STATE'S CRITICAL FINANCIAL AND ADMINISTRATIVE FUNCTIONS

The multi-year implementation of an ERP system will require substantial resources and planning to ensure a successful outcome. It is critical that the State remain committed to the selected software vendor to ensure a fully integrated system capable of addressing the current internal control deficiencies, business continuity risks, and inefficient processes inherent in the State's current financial and administrative systems.

Background: Subsequent to fiscal year 2022, the State's ERP system planning had advanced to the selection of a software solution and an integration vendor, two very important decisions necessary to ensure that the State can achieve its vision of a fully integrated ERP system. Planning, business process analysis, and evaluation of the State's current systems and data are beginning in fiscal 2023.

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.

The State's current financial systems design and limitations has resulted in numerous control deficiencies relating to internal control largely due to ineffective manual procedures being implemented in place of systemic integration that minimizes the risks of errors. The following control deficiencies most significantly impact the State's controls over financial reporting:

- *General ledger access* – Effective accounting systems restrict general ledger access to those individuals knowledgeable about the State's accounting and financial reporting. The current system allows wide access to the general ledger which results from recording cash receipts through journal entries rather than a cash receipts module. This significantly increases the risk of accounting errors being made and not being detected in a timely manner.
- *Recording accruals during the fiscal close* – The State currently relies on the manual accumulation of accruals (except for system generated accounts payable) as part of their fiscal closing process. These manual processes are more likely to omit or misstate the recording of accruals as the process lacks effective controls to ensure the completeness and accuracy of recorded amounts.
- *Recording financial activity from subsidiary systems* – Financial activity processed (and in certain situations disbursed) by subsidiary systems often prevents detailed transaction data from being reported in the accounting system. In addition, reconciliations of subsidiary systems to the State accounting system is a lacking compensating control needed in response to the decentralized use of multiple financial systems.
- *Federal revenue and expenditure reporting* – With the majority of the State's expenditures being funded by federal grants, controls over their reporting are material to the State's financial reporting. The State's accounting system does not meet the State's needs in three important and interrelated areas relating to the reporting of federal revenue and expenditures – time reporting/payroll, grants management, and cost allocation – all functionalities that are integral to the 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. Because these systems and processes are decentralized, they do not ensure that federal expenditures are only reported when available grant award authority exists and that federal expenditures are recorded in the proper period due to delays in cost allocation results being reflected in the accounting system.
- *Capital projects reporting* – the State currently tracks capital projects using Excel. Project costs are accumulated in Excel and reported as construction in progress before being reclassified to the proper capital asset category upon completion. This process is inefficient and lacks the controls that a fully integrated capital projects module would provide.

Cause: The State's current accounting and financial reporting system lacks the integration, functionality, and controls of a comprehensive 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

2022-001a: Manage the business process re-engineering required to align the State's processes to the software-as-a-service functionalities within the ERP system.

2022-001b: Ensure sufficient subject matter experts are involved in the implementation process to ensure a high likelihood of success.

2022-001c: Ensure that the new ERP system addresses identified internal control deficiencies relating to financial reporting.

Management's Views and Corrective Actions:

2022-001a: The State has engaged a system integrator, an independent validation and verification third party partner, and a data conversion specialist, in addition to our own subject matter experts to reduce the risks associated with control deficiencies and standardization of business processes across the stakeholder environment.

2022-001b: See response above; further, the State has augmented with external staffing to allow our subject matter experts to devote time to this project unobstructed.

2022-001c: See response above 2022-001a.

Anticipated Completion Date: July 1, 2025

Contact Persons:
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Finding 2022-002 ***(material weakness and other matter required to be reported by Government Auditing Standards – repeat finding – 2021-002)***

CONTROLS OVER UNEMPLOYMENT INSURANCE BENEFIT PAYMENTS

Controls over the processing of unemployment insurance claims were insufficient to prevent fraudulent unemployment insurance benefit payments. Recoveries of fraudulent unemployment insurance benefits have not been recognized or credited to the federal grantor.

Background: Since the start of the pandemic, the Department of Labor and Training (DLT) has paid more than $2.7 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. Expanded pandemic unemployment benefits continued during fiscal 2022, through September 2021, exceeding $300 million.

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 another $10 million in fraudulent claims were paid in fiscal 2022 prior to the end of expanded benefits in September 2021. DLT implemented additional measures since the commencement of the enhanced federal benefits which aided fraud prevention but did not fully eliminate such activities. The federal government required (effective in December 2020) stricter documentation requirements of income provisions for self-employed individuals; however, most claimants did not provide the required documentation and benefits continued.

In some limited instances, recoveries of amounts paid to fraudulent beneficiaries were made. DLT has not yet credited those amounts to the appropriate federal award.

Beyond the above control considerations, DLT’s current mainframe system has reached end-of-life and poses significant business continuity risks to unemployment insurance benefit operations.

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 recovered, the funding source for that benefit must be investigated and determined. The investigation and accounting for these amounts has lagged and was still pending at June 30, 2022.

Effect: Fraudulent UI 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 federal grantor has not yet been credited for their share of fraud recoveries.

RECOMMENDATIONS

2022-002a: Implement a strategic plan to address the required modernization of the unemployment benefit claims processing system. The modernization should include strengthening controls to prevent fraudulent benefit payments.

2022-002b: Research recoveries of overpayments or fraudulent payments and credit the federal government (appropriate federal award) for amounts recovered.

Management’s Views and Corrective Actions:

2022-002a: The RI DLT and Division of Information Technology are in the final phase of completing the review process for 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 cost review will take place in March 2023 and a vendor selected soon after.

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.

2022-002b: *The Department met with USDOL's regional office to seek technical assistance regarding repayment of funds recovered from banking institutions. We are currently awaiting a response with further direction. RI DLT will take appropriate action based on USDOL's recommendations and credit the federal and state benefit programs as appropriate for amounts recovered.*

Anticipated Completion Date: *2022-002a December 31, 2023*
2022-002b March 31, 2024

Contact Person: *Jessica Johnson, Assistant Director, Unemployment Insurance*
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Finding 2022-003 ***(material weakness – repeat finding – 2021-003 & 2021-004)***

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 $3.6 billion in expenditures or approximately 37% 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 of the Executive Office of Health and Human Services (EOHHS) 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.

Risks relating to inaccurate financial activity and federal compliance have increased 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.

The following were examples of control deficiencies during fiscal 2022 which led to a significant number of audit adjustments to correct financial reporting:

- Receivables and liabilities relating to the Medicaid Program at year-end each totaled in excess of $200 million. The estimation, calculation, and reporting of year-end accruals is an entirely manual process involving no systemic controls to ensure the accuracy and completeness of reported amounts;
- Payments to and recoupments from providers and managed care organizations totaling more than $110 million and $30 million, respectively, were made through system and manual transactions made by the fiscal agent with authorization by the State Medicaid Agency. These payments are not subjected to the claims

processing controls of the MMIS and often require substantial off-line manual calculations to determine the transaction amounts. These transactions are often netted within the normal claims processing cycle activity and the MMIS system lacks sufficient reporting capability for these transactions. During fiscal 2022, the volume of these transactions was significant (more than 1,600 transactions) and individual disbursements often exceeded $100,000 (approximately 180 individual payments in 2022);

- Managed care contract or rate adjustment settlements represented the largest system and manual payments. These transactions often totaled millions and resulted in the final capitation rate actually disbursed not being reflected in the MMIS, further complicating the final contract settlements which are performed manually by Medicaid staff and contract employees; and
- The MMIS's limited ability to process capitation adjustments and to process and report on encounter data makes it very difficult to estimate accruals relating to managed care. The State Medicaid agency currently relies on plan reporting from the MCOs to estimate final contract settlements requiring accrual at year-end. The accuracy of the data provided, the run-out period for providers to continue submitting claims, and the lack of complete encounter data reported in the MMIS remain challenges in accruing accurate managed care settlements at year-end.

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. 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. The extent to which 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 as they bypass 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: 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

2022-003a: 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.

2022-003b: Minimize instances where material financial activities are reliant on manual processes to ensure proper financial reporting.

2022-003c: Develop comprehensive reporting for system payouts, manual disbursements, and system recoupments to improve the transparency of these transactions processed by the Medicaid fiscal agent.

2022-003d: Improve controls over non-claims based financial transactions in the next MMIS to provide for individual reporting and proper financial accounting treatment.

Management's Views and Corrective Actions:

EOHHS recognizes the increasing complexity of the Medicaid program and the material impact of the financial aspects of this program on the State's financial reporting objectives. The following outlines the agency's continued corrective action plans for the above recommendations.

2022-003a: The MES Planning Vendor is evaluating the existing MMIS processing for premium payments, capitations, and encounters and 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.*

2022-003b: *EOHHS is aware of many of the risks facing the program's financial reporting, including manual payments, and has taken steps to simplify Medicaid-related financial activities and improve oversight as outlined below. The steps taken to-date and future steps 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. 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.). This allows for the risk share reporting to be validated against other financial reporting and in alignment with rate setting activities.*
      - *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.*

2. *Stop Loss Programs*
   a. *EOHHS recognizes that stop loss payments result 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; for example, there is a COVID vaccine administration "non-risk" stop loss program where the state pays the full amount of vaccine administration reimbursement back to the MCO using 100% federal funds.*
   b. *The state plans to eliminate the COVID-19 vaccine administration "non-risk" payment, and subsequent manual payment, in FY24 by incorporating this payment into rates.*

3. *Limiting Manual Capitation Payments*
   a. *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, new processes were 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 must still be processed manually unless additional system modifications are implemented.*

   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 recent FYs, including for FYs 22 and 23, budget initiatives impacting rates in the enacted budgets passed at the end of June have led to a delay in the final rates. This process is out of EOHHS' control and has resulted in large manual payments. 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.

2022-003c: *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 is also reviewing the documentation required when FACNs are submitted for payment or recoupments, including how requests document Federal authorities in place. The agency intends to issue updated guidance to ensure consistency across all FACNs.*

EOHHS has implemented "ServiceNow" with their fiscal agent for the purpose of more formally tracking system issues, incidents, password resets. The fiscal agent is in the process of testing functionality for non-financial FACNs with the goal for this to be implemented in April 2023. Financial FACN and system modification request will be implemented at a later date. 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. Remaining ServiceNow functionality should be implemented by December 2023.

2022-003d: *The MES Planning Vendor is evaluating the existing non-claims based MMIS financial transactions and reason codes and 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 (unless specified above)*

Contact Person: *Kim Pelland, Medicaid Chief Financial Officer, EOHHS*
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Finding 2022-004 ***(significant deficiency – new finding)***

FISCAL CLOSING DEFICIENCIES – DEPARTMENT OF BEHAVIORAL HEALTHCARE, DEVELOPMENTAL DISABILITIES, AND HOSPITALS

The Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals (BHDDH) omitted certain accruals in conjunction with the State's fiscal closing.

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. Generally accepted accounting principles require that expenditures are recorded in the correct financial period and, when necessary, estimates can be recorded by management to ensure the completeness of financial reporting.

Condition: Accruals for department expenditures were omitted because BHDDH did not have completed cost reports and cost allocation results at June 30, 2022.

Cause: Management made no attempt to estimate and record amounts for final settlements and cost allocation results relating to fiscal 2022 as part of the department's fiscal close.

Effect: The potential omission in accrual recording could result in material misstatement of the financial statements.

RECOMMENDATION

2022-004: Estimate and record expenditures at year-end to ensure the completeness of financial reporting.

Management's Views and Corrective Actions:

BHDDH concurs with the Auditor General's finding. BHDDH is presently recruiting additional fiscal staff and cross training existing staff to ensure timely reporting. In collaboration with the 3rd party vendor providing allocation services, BHDDH is implementing changes in past practices to address this timing issue.

Anticipated Completion Date: *Fiscal Close 2023*

Contact Person: *Mary Dupuis, Administrator II. BHDDH*
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Finding 2022-005 ***(material weakness - repeat finding – 2021-005)***

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. A complete consideration of internal control, in addition to documenting control policies and procedures, must also include how the policies are communicated, documentation of risks associated with financial reporting and operations, and monitoring of those documented controls to ensure their effectiveness. Federal regulations require the establishment and maintenance of effective internal controls when administering federal awards.

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

2022-005a: 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.

2022-005b: 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 committed resources to working with the agencies, as well as training and developing implementation ("best-practice") materials. Further, the ERP system is underway which brings the opportunity to embed internal controls within the software application. 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 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*
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Finding 2022-006	***(significant deficiency - repeat finding - 2021-006)***

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. Management should also ensure that their user entity controls are documented and reviewed to ensure that they are operating effectively. Ineffective user entity controls limit the usefulness of SOC reports when documenting an entity's financial and operational controls as those reports assume that user entity controls are operating effectively.

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. Our audit has frequently noted instances where user entity controls have not been documented and reviewed by the State agency with direct responsibility for those identified controls.

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 2022, documentation support obtained by the State departments utilizing the service organization was incomplete or insufficient 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. In addition, insufficient documentation and review of user entity controls limits the related assurance that can be placed on control objectives reported within SOC reports.

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

2022-006a: Enhance training and monitoring to ensure compliance with newly implemented SOC report evaluation procedures.

2022-006b: Ensure that relevant complementary user entity (State) controls identified by service organizations are also in place and operating effectively.

2022-006c: 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:

2022-006a: A&C disagrees with this finding. A&C developed guidance and a detailed training which it provided to agencies during June 2022. The June 2022 training was comprehensive to the SOC reporting process. Further, it can be utilized in conjunction with the updated assessment tool and detailed instructions to improve the overall state agency evaluation and compliance of SOC reports. Further, A&C finalized a new assessment tool entitled "SOC Report Review" to replace the prior checklist. The SOC Report Review improved upon the prior 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 provides resources to the agencies throughout the year regarding SOC training, evaluation requirements, comments and questions.

2022-006b: Within the new SOC Report Review tool and its related training, there are 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. The respective agency CFOs should ensure the user entity's complimentary controls are in place and operating effectively. A&C is available to assist with questions and review of the controls in place.

2022-006c: As in the 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 A&C assurance the CFOs are reviewing the SOC report appropriately and timely. 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 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.*

Anticipated Completion Date: *6/30/2022*

Contact Person: *Alex Herald, Administrator of Financial Management*
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Finding 2022-007 **(significant deficiency – repeat finding – 2021-037)**

CONTROLS OVER PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Controls over the preparation of the Schedule of Expenditures of Federal Awards (SEFA) can be enhanced to ensure all program activity is accurately reported to the proper Assistance Listing number and amounts passed through to subrecipients are appropriately classified and reported.

Criteria: 2 CFR 200.510(b) states "The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502. At a minimum, the schedule must:

(1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.

(2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.

(3) Provide total Federal awards expended for each individual Federal program and the Assistance Listings Number or other identifying number when the Assistance Listings information is not available. For a cluster of programs also provide the total for the cluster.

(4) Include the total amount provided to subrecipients from each Federal program."

The preparation of an accurate SEFA is critical to ensuring the proper recording of federal revenue and expenditures in the financial statements and to ensure that the State can comply with federal Uniform Guidance when submitting the State's Single Audit Report required by federal regulations.

Condition: We noted several instances in which adjustments to the SEFA were necessary to accurately report the federal expenditure activity for fiscal 2022:

- *Coronavirus State and Local Fiscal Recovery Fund (21.027)* - Amounts disbursed to municipalities from the State non-entitlement and county distribution amounts which federal regulations define as direct assistance to those entities. In accordance with federal guidance, these funds should be reported as direct assistance by the municipalities and not reported on the State's SEFA. Accordingly, expenditures were reduced by $132 million.
- *Disaster Grants – Public Assistance (administered by the Federal Emergency Management Agency) (97.036)* – Under generally accepted accounting principles, disaster grant federal revenue cannot be recognized until the underlying expenditures are approved by FEMA. The FEMA approval is deemed to be the underlying requirement for revenue recognition. Thus, recognition of the federal expenditures can lag the actual fiscal period in which the expenditures are incurred. Expenditures had to be increased by $155 million for amounts awarded by FEMA in fiscal 2022 relating to expenditures incurred in prior periods.
- *Medical Assistance Program (93.778)* – In accordance with provisions in the State's section 1115 waiver, the State receives federal match for certain Designated State Healthcare Program (DSHP) expenditures when incurred. Those proceeds must be utilized by the State to fund the State match for certain Healthcare Systems Transformation Programs (HSTP). HSTP expenditures from restricted DSHP funding totaled $13 million in fiscal 2022 and required addition to reported federal expenditures in the SEFA.

- *Social Services Block Grant (SSBG) (93.667)* – In accordance with federal regulations, certain expenditures for the SSBG program can be funded through the State's *Temporary Assistance to Needy Families (TANF) Program (93.558)*. For SEFA reporting purposes, this required reclassification of $8 million between the programs in fiscal 2022.

Adjustments of reported pass-through amounts were also required. In addition to adjustments for the primary government's federal expenditures, the State does not adequately review and monitor reported federal expenditures of the discretely presented component units. Such monitoring and oversight is necessary as Rhode Island submits a Single Audit Report for the entire financial reporting entity.

Cause: There is a disconnect between the agency personnel responsible for accurate recording of federal expenditures in the SEFA and the Office of Accounts and Control, the agency that prepares the SEFA from the accounting system. Both agency personnel and the agency responsible for preparation of the Statewide SEFA need more training regarding program regulations and federal requirements to ensure the accurate preparation of the SEFA.

Effect: Without correction, the SEFA would not accurately present federal expenditures in accordance with the Uniform Guidance.

RECOMMENDATION

2022-007: Ensure policies and procedures for presenting the SEFA are consistent with Uniform Guidance requirements.

Management's Views and Corrective Actions:

We agree with the recommendation. We believe we can approach this finding in two ways. As mentioned, we can improve communication with agency personnel responsible for accurate recording of federal expenditures in the SEFA. Also, we can better utilize the recently implemented Grant Management System. As it standardizes and enforces Uniform Guidance requirements, we should be able to apply that to our overall understanding of what should be included or excluded from the SEFA. This should also help us to review and monitor discretely presented component unit federal expenditures.

As it pertains to the specific adjustments to the SEFA this year, we will review those instances. If these will be a recurring adjustment year over year, then we will work to identify these transactions in the ledger and ensure they are allocated correctly as it relates to the SEFA.

Anticipated Completion Date: *Ongoing with full adoption of Grant Management System expected late 2025*

Contact Person: *Steve Thompson, Chief of Strategic Planning, Monitoring and Evaluation, Grants Management Office, Office of Accounts and Control Steve.Thompson@omb.ri.gov*

Finding 2022-008 ***(material weakness – repeat finding – 2021-009)***

CONTROLS OVER FEDERAL PROGRAM FINANCIAL ACTIVITY

The State must 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 2022 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.

With the longer-term solution residing with a fully integrated ERP system with the functionalities outlined in Finding 2022-001, the State needs to implement the following near term solutions to improve controls over federal reporting:

- Interface RIFANS with the separate Grants Management System (GMS) to provide controls ensuring that federal expenditures are recognized only if the GMS reports sufficient federal grant authority at the time of the transaction,
- Ensure that agencies are completing quarterly cost allocations and that related adjustments of reported expenditures are completed in a timely manner,
- Revise the current Federal Grants Information Schedule (FGIS) process to require agencies to submit federal reports with their FGIS reconciliations. Also consider transferring the responsibility for reviewing the FGIS reconciliations to grants management staff within the Office of Accounts and Control who are more knowledgeable about federal grant reporting. Exploration of options to automate FGIS reporting and reconciliation should also be explored.

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 system 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

2022-008: 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:

We agree with the recommendations and have already addressed several of the core issues noted in this finding.

The Grant Management System (GMS) implementation completed during December 2022. The GMS integrates with RIFANS (will integrate with ERP system in the future) and passes data via a nightly transfer between the two systems. We are now in the adoption phase of the project and are actively working with state agencies to utilize the system. As part of the adoption phase of the project, the Office of Grants Management has promulgated a new regulation, 220-RICR-20-00-2, expected to be enacted March 15, 2023. The regulation establishes a framework for grant making activity by state agencies requiring agencies to issue new subawards through the system effective July 1, 2023.

As a result of this regulation, payment requests from subrecipients for subawards issued after July 1, 2023 will be processed entirely through the GMS. Approved requests will be sent to RIFANS and generated as an invoice for payment following the established RIFANS approval process and rules. We believe RIFANS *integration with the GMS is a significant step forward strengthening internal controls between federal award limitations (budget) and expenditures.*

The lack of key grant identifying information in RIFANS remains a challenge for the State. As part of the GMS project, we established a process where the GMS generates a unique grant ID for all federal awards entered into the system called RIGID. The RIGID is part of the nightly data transfer to RIFANS and allows for the critical linkage between grant information and expenditures in RIFANS. Use of the RIGID between the GMS and RIFANS establishes a vital connection between data that will serve the State until the ERP system takes over as the financial system of record. The ability to link grant information with expenditures in RIFANS for many awards will help address items raised in this finding.

We agree that the FGIS process should be reassessed. In addition to the issues cited in this finding, a key issue related to variances is the issue of timing, specifically state fiscal year vs. federal fiscal year. Data gathered from agencies is always as of a point in time and therefore doesn't always align with required federal financial reports.

Anticipated Completion Date:	*GMS RIFANS Integration completed. Further controls, ongoing and linked to ERP project timelines.*
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Finding 2022-009	***(material weakness – repeat finding – 2021-017)***

MATERIAL AUDIT ADJUSTMENTS

Material audit adjustments were proposed and accepted during our audit of the State's fiscal 2022 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. Common reasons for proposed audit adjustments were to correct the financial statements to ensure the:

- Alignment and consistency amongst funds and/or for proper financial reporting classification (i.e., ensuring that transactions were reported consistently in the financial statements),
- Completeness and accuracy of accrual transactions,
- Recording of accounting adjustments pending information not provided timely by State agencies,
- Alignment of transfers between the primary government and its discretely presented component units, and
- Proper reporting of custodial activity in the State's financial statements.

Cause: The Office of Accounts and Control experienced significant turnover in accounting staff beginning in fiscal 2021 depleting the office of personnel with experience in preparing governmental financial statements. In addition, documentation of policies and procedures was lacking for new staff to follow when preparing the 2022 financial statements. Certain State agencies did not provide information in a timely manner to ensure accurate and complete financial reporting.

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

RECOMMENDATIONS

2022-009a: Increase resources needed for personnel and training within the Office of Accounts and Control to ensure accurate and timely financial reporting moving forward. Consider the need for separate resources dedicated to quality control over financial reporting.

2022-009b: Improve documentation of the State's policies and procedures relating to financial reporting.

2022-009c: Financial reporting training should be considered for State agency finance personnel to increase awareness of governmental financial reporting.

Management's Views and Corrective Actions:

2022-009a: The Office of Accounts and Control worked diligently during Fiscal Year 2022 to recruit and hire key positions within the Office. As of February 2023, the finance and accounting unit is fully staffed. A&C will work to retain staff and ensure accurate and timely financial reporting moving forward. A&C has identified valuable training opportunities provided by the Governmental Finance Office Association (GFOA) and assigned respective staff members to attend. Further, A&C is actively internally training and cross training new members of the team in advance of Fiscal Year 2023 close.

2022-009b: The Office of Accounts and Control is working to update and issue new policies to help improve financial reporting and provide additional guidance to state agencies. Further, A&C is working through its internal trainings to improve upon policy and procedure documentation.

2022-009c: A&C agrees with this recommendation and will urge state agency CFOs to leverage key resources such as the GFOA to provide their respective finance staff with training. A&C makes itself available to agencies to assist with governmental financial reporting or accounting questions as they arise.

Anticipated Completion Date: Ongoing

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Finding 2022-010	***(material weakness - new finding)***

INVESTMENT NEEDED FOR MODERNIZATION OF THE STATE'S TREASURY FUNCTIONS

The complexity of Treasury operations has increased substantially over the years without significant modifications to the State's investment in technology and personnel to support those efforts and to ensure internal control best practices are maintained.

Background: The Office of the General Treasurer (Treasury) is responsible for the State's cash management functionality which includes oversight of deposit balances with multiple financial institutions, investment of cash balances, maintaining liquidity to meet obligations, and ensuring the safety of deposits and short-term investment balances.

At June 30, 2022, the State's short-term deposit and investment portfolio (exclusive of pension and OPEB related investments) totaled nearly $4 billion. Organizations of similar size and complexity would typically have sophisticated and integrated information technology systems to facilitate daily cash management operations and ensure compliance with deposit and investment guidelines.

The Office of the General Treasurer has utilized various applications to facilitate its cash management functionalities, but none have been integrated with the State's accounting system. The State is beginning to implement an Enterprise

Resource Planning system and it is important that the State's cash management functionalities and requirements be included and integrated within that implementation.

Criteria: Management is responsible for ensuring internal controls over Treasury operations are well designed and effective. Most important within Treasury operations is ensuring segregation of duties. Treasury is also responsible for ensuring the safety and liquidity of the State's deposits and for ensuring compliance with the deposit and short-term investment guidelines of the State Investment Commission.

Condition: While Treasury meets its daily cash management responsibilities, mostly through the continuity of "key" personnel, these activities are not adequately supported by current technology that accesses and integrates data from multiple sources (e.g., accounting system, banks, custodians, investment counterparties). Accordingly, data is independently gathered from a variety of sources which is time consuming and inefficient. Additionally, given the current configuration of non-integrated applications, there is an insufficient number of staff assigned to these functions to allow adequate segregation of duties. The systems and processes used to manage the deposit and short-term portfolio present the following control deficiencies:

- Difficulties in ensuring segregation of duties relating to the transfer of funds and the recording and reconciling of investment activity.
- The State is currently utilizing Excel to record the purchase and sale of investments. The program is utilized to journalize summarized investment activity into the State's accounting system. While functional, the lack of transaction level detail being recorded in the State's accounting system, coupled with the lack of controls that a more substantial software application would include, is not ideal.
- Managing compliance with investment diversification policies (promulgated by the State Investment Commission) and statutory collateralization requirements mandated for the State's cash deposits requires continual monitoring to ensure compliance. The Treasurer's office currently lacks a modern cash management system that would facilitate compliance monitoring, requiring those functions to be performed by personnel already depended on for various other Treasury functions.

Cause: The current systems do not contribute to the segregation of duties, and staffing is insufficient to adequately segregate the functions with the required redundancy needed in various positions. Current use of Excel lacks required access, data integrity, and other systemic controls to safeguard the recording of the State's short-term investment activity. There is a lack of sufficient technology and personnel resources needed to manage compliance with investment diversification policies and statutory collateralization requirements.

Effect: There is an inability to maintain proper segregation of duties in key treasury operations as well as potential noncompliance with diversification and collateralization policies for the State's cash and investments.

RECOMMENDATIONS

2022-010a: Contract for a study of Treasury operations to identify the appropriate levels of personnel required for the size of the Treasurer's current operations and responsibilities. Include in that study, personnel that would be required to advance future technological solutions.

2022-010b: Ensure the State's Enterprise Resource Planning system implementation includes the State's treasury function and the resources that will be needed to integrate the cash management functionality within the System.

2022-010c: Consider the personnel resources necessary to enhance segregation of duties and reduce business continuity risks associated with current personnel levels.

Management's Views and Corrective Actions:

2022-010a: Management agrees with this finding. The Treasurer's Office is currently organizing a "cash" project targeted to define the topic scope, information requirements and potential entities that could provide a study of this nature.

2022-010b: Management agrees with this finding. The State's Enterprise Resource Planning system is in the beginning stages of design and implementation. This project has been split into two distinct phases – HR and Finance with the HR phase coming before Finance. The Cash Manager and other treasury personal have been included on the team implementing the

Finance phase. The Cash Manager will work to ascertain the functionality of the new software and determine if it possesses the functionality required by the cash management team. If possible, we will build the necessary functionality into the new system.

2022-010c: *Management agrees with this finding. The State Treasurer's Office has requested an additional FTE believed minimally necessary to provide for adequate segregation of duties. This request has so far been denied by the state budget process.*

Anticipated Completion Date:

2022-010a: *December 2023*

2022-010b: *The Finance phase of the ERP implementation is scheduled to begin in January of 2024 (significant planning is beginning now but the actual implementation begins next year.) and take approximately 2 years.*

2022-010c: *TBD*

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Finding 2022-011 ***(significant deficiency – repeat finding - 2021-015)***

VOLUME OF ACCOUNTING SYSTEM JOURNAL ENTRIES

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

Background: More than 10,500 journal entries were processed during fiscal 2022 in the accounting system. An additional 36,000 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. The significant increase in federal awards provided to address pandemic related costs has increased the volume of journal entries as costs were reallocated to the most appropriate funding source.

Additionally, RIFANS lacks any receipt/revenue functionality, consequently requiring receipts/revenues to be 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, threatening the effectiveness of control procedures.

Cause: Insufficient cost allocation functionality in the current accounting system necessitates a high volume of journal entries to allocate administrative 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. In addition, while agency finance personnel are knowledgeable about program and agency activities, they are often less familiar with governmental accounting and financial reporting requirements.

Effect: Controls are weakened through the large 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

2022-011a: Ensure the statewide ERP includes appropriate cost allocation functionality, 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.

2022-011b: Enhance review and oversight of material journal entries to ensure appropriate recording of transactions and avoid misstatement of the financial statements.

Management's Views and Corrective Actions:

Management agrees with the recommendations. 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. A&C will continue to work on its review and oversight of material journal entries to ensure appropriate recording of transactions.

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

Contact Persons: *Tara Mello, Associate Controller-Finance*
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Finding 2022-012 ***(material weakness – repeat finding - 2021-012)***

PREPARATION OF THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

The State needs to improve its documentation of processes relating to the preparation of the government-wide financial statements.

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 consistently in both sets of books and required updates to account mappings are made when needed. Preparation of the government-wide financial statements should include adequate review to ensure results are consistent with expectations.

Condition: The fiscal 2022 draft government-wide financial statements required substantial adjustment prior to finalization. Reconciliations, included as a required component of the basic financial statements, to identify and explain the differences between the government-wide and fund-level financial statements were incomplete. These reconciliations also required significant adjustment in conjunction with our audit.

Significant government-wide financial statement areas that require better documentation of procedures and additional training include:

- Determining the State's Net Investment in Capital Assets,
- Classifying reported Net Position,
- Calculating the State's liability for compensated absences,
- Ensuring the proper reporting of long-term liabilities (including reconciliation with the State's debt management system) and consistent presentation with the information disclosed in the notes to the financial statements, and
- Ensuring alignment of the receivables and liabilities between the primary government and its discretely presented component units.

Cause: The Office of Accounts and Control experienced significant turnover in accounting staff beginning in fiscal 2021, depleting the office of personnel with experience in preparing governmental financial statements. In addition, documentation of policies and procedures were lacking for new staff to follow when preparing the 2022 financial statements. Manual procedures, rather than systemic controls, are currently required to ensure that all transaction activity is recorded consistently in both sets of books and required updates to account mappings are made as needed.

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

RECOMMENDATIONS

2022-012a: Enhance procedures for preparing the government-wide financial statements to ensure consistent and accurate recording of transaction activity. Improve documentation of government-wide financial reporting policies and procedures to ensure continuity of financial statement preparation during periods of staff turnover.

2022-012b: Consider staff resources and training currently required by the Office of Accounts and Control to ensure accurate and timely financial reporting moving forward. Consider the need for separate resources dedicated to quality control over financial reporting.

Management's Views and Corrective Actions:

A&C agrees with these recommendations. A&C is working on improving its documentation of government-wide financial reporting policies and procedures. As policies and procedures are formalized, they will be communicated and trained to the respective staff. A&C has also spent significant time staffing the finance and accounting unit over the past year to ensure more timely financial reporting moving forward.

Anticipated Completion Date: *Ongoing.*

Contact Persons:
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Finding 2022-013 ***(significant deficiency - repeat finding - 2021-020)***

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: The State's current capital asset inventory process involves the Office of Accounts and Control sending an inventory list of currently recorded capital assets to individual departments for them to conduct a self-inventory. Capital assets not found by the departments are reported to the Office of Accounts and Control with the results certified by the respective director. Fiscal 2022 capital asset inventories identified a significant number of unlocated capital assets. These capital asset inventories identified 141 buildings and 423 laptops as unlocated and thus were removed from the State's capital asset records. No independent follow-up was conducted to evaluate why the assets were not located and whether the agency could explain and document their disposal.

It is unclear whether the agencies disposed of the assets and failed to report the disposal to the Office of Accounts and Control. In the instance of the buildings, most had no book value and were likely erroneously recorded in the capital asset record during the State's initial recording of capital assets decades ago. Most of these disposals did not significantly impact financial reporting due to the fact that the assets were fully depreciated.

Cause: Cyclical departmental inventories are conducted without on-site participation by the Office of Accounts and Control or another group independent of the agency 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

2022-013a: Include staff from Office of Accounts and Control on the team performing each cyclical, departmental capital asset inventory.

2022-013b: 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:

As stated last year, the Office of Accounts and Control implemented a number of steps to increase the accuracy of physical inventory process. Included in its enhancements was the process for the review and inquiry for material capital assets reported as not found. A&C will evaluate the necessity to be physically present for each inventory if sufficient resources are available.

Anticipated Completion Date: *Ongoing*

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INTERNAL CONTROL OVER FINANCIAL REPORTING -

INTERMODAL SURFACE TRANSPORTATION FUND

Finding 2022-014	*(significant deficiency – repeat finding – 2021-024)*

DIVISION OF MOTOR VEHICLES – CONTROLS OVER REVENUE COLLECTIONS

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 Intermodal Surface Transportation (IST) Fund.

Background: In fiscal 2022, the DMV collected $105 million in revenues (excluding sales taxes) of which $83 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 chapter 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. RI Department of Transportation (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 the RI General Laws, the surcharge amount being applied to each DMV transactions code, and how the DMV computer system, RIMS, 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 crosswalk of the fee structure identified by the RI General Laws for licenses, registrations, surcharges, etc. and how RIMS is programmed to identify such amounts.

- The current reconciliation performed between the State accounting system (RIFANS) and 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.

- Identifying an estimated deposit date for DMV proceeds within RIMS reports will assist in fully reconciling RIMS reported activity with the State accounting system.

Cause: Controls to ensure the completeness of the DMV revenues earmarked for transportation purposes within the IST Fund require improvement. DMV should consider ways that the RIMS system can enhance monitoring of compliance with statutory revenue requirements and assist the agency in completely reconciling with RIFANS.

Effect: Potential for misstatements in the financial statements not being detected in a timely manner.

RECOMMENDATIONS

2022-014a: Enhance the monthly and annual reconciliations between RIFANS and RIMS to ensure that recorded revenue is supported by data reported in RIMS.

2022-014b: Create a crosswalk between the fees charged in RIMS and the section of the Rhode Island General Laws authorizing the fee.

Management's Views and Corrective Actions:

2022-014a: 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.

2022-014b: 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 2023 with completion by December 2023.

Anticipated Completion Date: *December 2023*

Contact Persons: *Division of Motor Vehicles*
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Finding 2022-015 ***(significant deficiency - repeat finding - 2021-026)***

INTERMODAL SURFACE TRANSPORTATION (IST) FUND – FINANCIAL REPORTING

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

Background: The 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. The IST Fund financial statements, although generated by the State accounting system, are the responsibility of the financial management of the RI Department of Transportation (RIDOT).

Criteria: Controls over the preparation of financial statements should ensure consistent and accurate financial reporting. RIDOT management is responsible for ensuring that controls over financial reporting are in place and operating effectively.

Condition: We identified certain misstatements in the 2022 IST financial statements that required adjustment. Those misstatements related to the reporting of fund balance, federal revenue and expenditures, and accounts payable in the financial statements.

Cause: Identified misstatements resulted from deficiencies in current financial reporting processes relating to manual procedures designed to compensate for insufficient automated accounting controls. Examples include the allocation of fund balance and the accumulation of accounts payable transactions from the RIDOT Financial Management System (FMS). These processes require manual intervention that can be prone to error and lack controls to ensure completeness. In addition, most of the accounting that involves manual intervention are often performed by the more experienced accounting staff at RIDOT, reducing the likelihood that independent reviews will be performed subsequently. Most of the exceptions noted may have been identified if RIDOT had been performing a more detailed review of account balances in conjunction with the fiscal close.

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

RECOMMENDATIONS

2022-015a: Ensure the transactions identified through the reconciliation 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.

2022-015b: Implement controls, including more detailed supervisory review of financial statement accounts, to ensure the accuracy of recorded amounts in the financial statements.

Management's Views and Corrective Actions:

2022-015a: During FY 2021 and 2022, 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 2023, 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. The lack of staffing resources has delayed the full implementation of this process.

2022-015b: *DOT will develop procedures for reviewing the financial statements during fiscal close. The procedures will include a hierarchy to ensure proper staff are reviewing them.*

Anticipated Completion Date: *December 31, 2023 - 2022-015a*
June 30, 2023 - 2022-15b

Contact Person: *Loren Doyle, DOT Acting Chief Operating Officer/Chief Financial Officer*
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Finding 2022-016	**(material weakness – repeat finding – 2021-027)**

TRANSPORTATION INFRASTRUCTURE REPORTING

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 record the disposal of infrastructure assets when retired or replaced.

Background: RIDOT enhanced its process to identify transportation infrastructure assets which use the RIDOT Financial Management System (FMS) to identify each project and ensure 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 (as recorded by the Office of Accounts and Control), 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.

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.

Condition: The cost and related accumulated depreciation associated with infrastructure assets that have been replaced or are no longer in service have not been removed from reported infrastructure amounts. The State asserts that these assets are fully depreciated thus not resulting in a significant misstatement of reported net infrastructure, however, a process for removal to support that assertion by management needs to be implemented.

We proposed material adjustments to correct balances at June 30, 2022 – construction in progress was overstated by $60.2 million and infrastructure was understated by $6.2 million. Additionally, there needs to be better coordination between RIDOT and the Office of Accounts and Control to ensure that infrastructure is accurately reported each year.

In conjunction with its review of asset disposals, RIDOT should consider whether it has current transportation infrastructure assets recorded that may be impaired and require proper accounting recognition in accordance with government accounting standards.

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

A process to evaluate and remove estimated costs relating to retired/replaced infrastructure has not been implemented. The consideration and documentation of impaired infrastructure assets should also be performed.
RIDOT does not review infrastructure assets reported in the State's financial statements to ensure that balances are consistent with supporting documentation and RIFANS.

Effect: Infrastructure assets and related depreciation expense may be materially misstated.

RECOMMENDATIONS

2022-016a: Enhance controls over the recording of infrastructure assets by reconciling RIDOT departmental records of construction in progress and infrastructure assets to amounts reported in the State's financial statements.

2022-016b: Implement a process to remove estimated infrastructure assets and related accumulated depreciation when assets have been replaced or taken out of service. Include in that process consideration of whether any of the State's recorded transportation infrastructure has been impaired consistent with GAAP criteria.

Management's Views and Corrective Actions:

2022-016a: RIDOT will reconcile historical infrastructure information with FMS and the state's financial statements to ensure construction in progress and infrastructure assets are recorded consistently across all reports.

2022-016b: During FY 2022, DOT Finance worked with DOT Bridge Maintenance to develop a method to determine assets that have been impaired and assets that have been taken out of service. In this fiscal year we will continue to work with DOA Accounts and Control to determine how to make the adjustments to the assets in RIFANS.

Anticipated Completion Date: June 30, 2023

Contact Person: Loren Doyle, DOT Acting Chief Operating Officer/Chief Financial Officer
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Finding 2022-017	***(significant deficiency – repeat finding - 2021-028)***

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

Obtain a service organization control report to provide assurance on key controls of the vendor that operates the highway toll billing and collection system.

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 2022, there were 12 tolling locations which collected approximately $38.5 million in revenue. Controls over toll revenue depend on the reliability of the reporting by the vendor that operates the toll billing and collection system.

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

2022-017: 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:

Due to a court decision in September 2022, RIDOT no longer operates the tolling system. Therefore, currently it is not feasible to obtain a SOC report. The court decision is in the appeals process.

Anticipated Completion Date: *Unknown*

Contact Person: *Loren Doyle, DOT Acting Chief Operating Officer/Chief Financial Officer*
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INTERNAL CONTROL OVER FINANCIAL REPORTING -

STATEWIDE INFORMATION SYSTEMS SECURITY

AUDIT STANDARD:

Auditing standards defines the risk of the use of information technology (IT) as the susceptibility of information processing controls to ineffective design or operation, or risks to the integrity of information in the entity's information system, due to ineffective design or operation in the entity's IT processes.

Finding 2022-018	*(significant deficiency – repeat finding – 2021-023)*

DIVISION OF INFORMATION TECHNOLOGY – COMPREHENSIVE INFORMATION SYSTEMS SECURITY – ADDITIONAL RESOURCES NEEDED TO ADDRESS CURRENT RISK ASSESSMENT

The State updated its current cybersecurity readiness and has begun to identify risk mitigation priorities and the resources needed to implement necessary corrective action.

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 appropriately controlled access.

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. The State recently contracted for an updated assessment of its cybersecurity readiness. The assessment noted improvements by the State in several areas and also identified and prioritized a significant number of critical improvements required to mitigate current security risks. Critical improvements will require substantial resources be devoted by the State.

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 IT security over the State's network environment which is critical to the State's operations and negatively impacts application security if not maintained at an acceptable industry level standard. Our detailed findings, in most instances, mirrored the findings of the recent cybersecurity assessment.

DoIT has continued to implement a variety of IT security system and network improvements that will enhance management capabilities (e.g., policy enforcement) and improve overall security. Unfortunately, the State does not have sufficient resources dedicated for the size and complexity of State operations and risk mitigation is not progressing quickly enough.

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 or network 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 systems and data contained within the State's IT environment.

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

Condition: The State has continued to update and enhance its IT security policies and procedures for its IT environment; however, it has lagged in effectively communicating and implementing these policies due to a lack of IT resources and necessary training. The updated IT cybersecurity assessment provided validation of the State's improvements when compared to previous assessments, however, it also validated that the pace of improvement is too slow and resources are insufficient to mitigate current risks.

The State needs a comprehensive plan to identify the amount of dedicated IT security resources appropriate to the State's size and complexity. The plan should include a formalized risk assessment to identify the risks deemed most critical to operations and security. The plan should identify the resources necessary and the mechanism to ensure proper funding of those resources over time. The State should consider IT security to be an operational cost rather than something that requires only periodic investment.

The State has insufficient resources allocated to perform IT security functions on a timely basis 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: Current resources are insufficient to maintain IT security over the State's IT infrastructure, systems, and data for an enterprise the size of the State.

Without a formal risk-based prioritization approach, ensuring that resources (funding and personnel) required to support the number of system implementations, network improvements, and security monitoring and improvements in process concurrently 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.

Effect: Critical systems and data may be exposed to security vulnerabilities and cyberattacks 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 and the security and integrity of the data within those systems.

RECOMMENDATIONS

2022-018a: Using the recent cybersecurity assessment and existing audit recommendations, develop a comprehensive plan to address the current IT security risks to State operations. This plan should be risk-based and include the necessary resources, corrective actions, and prioritization needed to ensure timely mitigation by the State.

2022-018b: Continue to update formalized risk assessments periodically (with annual updates to adjust security priorities) with the results documented and communicated to management. These assessments should include consideration of IT security issues resulting from audits, reviews of Service Organization Control reports, and internal assessments to include IT security concerns for all of the State's critical systems.

Management's Views and Corrective Actions:

This activity is ongoing and cyclical in nature. Requests for funding for a Governance, Risk, and Compliance tool will be submitted for implementation in FY2024 which will support the maturation of the risk assessment and formal planning process.

Anticipated Completion Date: *FY 2025*

Contact Person: *Brian Tardiff, CDO/CIO, CISO*
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Finding 2022-019 ***(material weakness – repeat finding – 2021-022)***

DIVISION OF INFORMATION TECHNOLOGY – PROGRAM CHANGE CONTROLS

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.

Background: Program change controls are a critical component of any system development life cycle. These controls ensure that only authorized changes are made to programs (along with user acceptance testing) before being promoted into the production environment. Additionally, program change control procedures prevent and detect unauthorized program modifications from being made.

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. Automated tools facilitate control over the change management process, reduce human error, and allow the process to be consistent, predictable, and repeatable.

DoIT should develop procedural guidance to detail the correct use of change management software and mandate 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 leads to inconsistent methods, as well as noncompliance and circumvention of DoIT's change control policies and procedures. For many of the State's critical systems, automated change control 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.

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

2022-019a: Develop and implement procedures detailing specific requirements for program change control and disseminate and train DoIT support staff in its proper execution.

2022-019b: 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:

2022-019a: *DOIT has utilized program change control using products such as BitBucket, DevOPS and GitHub. We are moving forward with further use of BitBucket and Jira. We have purchased licenses for several uses at one of our larger applications and have purchased licenses for DoIT staff to utilize. Some of legacy application, which migrated to a new platform, will utilize this technology.*

2022-019b: *As part of the Jira rollout, our PMO office will develop procedures to address those areas. We are currently in search of a PMO lead to lead this effort. The PMO lead position is currently posted for recruitment. This individual will develop those procedures once hired.*

Anticipated Completion Date: *June 2024*

Contact Person: *Alan Dias, Chief of Agencies and Enterprise Applications*
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Finding 2022-020	*(significant deficiency - new finding)*

PERIODIC SYSTEM ACCESS AND PRIVILEGE REVIEWS

The State's current practices for periodic logical access and privilege reviews at both the application and network levels need improvement.

Criteria: While it is critical to set initial system access for an employee to the minimum necessary to perform the job function, it is also crucial to ensure that their access level remains current and appropriate over time since job functions may change.

Per NIST 800-53, "The need for certain assigned user privileges may change over time to reflect changes in organizational mission and business functions, environments of operation, technologies, or threats. A periodic review of assigned user privileges is necessary to determine if the rationale for assigning such privileges remains valid. If the need cannot be revalidated, organizations take appropriate corrective actions."

Condition: Periodic review of granted system access (privileges) is not consistently or uniformly performed for the majority of applications utilized throughout State government. Special attention should be paid to review system access for individuals granted administrator or "super user" access to ensure that such access is required and terminated in a timely manner. State network access should also be reviewed to ensure timely termination when system users leave employment (State or Contractor), are transferred to a new position, or no longer require system access.

Cause: Lack of consistent and uniform review of system access (privileges) across most State applications.

Effect: Improper or unauthorized access to State systems or networks which could impact service availability, data integrity, and/or security.

RECOMMENDATIONS

2022-020a: Implement periodic, verifiable privilege reviews for all applications and networks. Prioritize critical financial applications and those that contain sensitive data.

2022-020b: Communicate policies and procedures for privileged user access reviews to be performed by assigned agency IT staff periodically (no less than annually). Implement specific training in conjunction with the communication of policies and procedures to ensure conformity across the entity.

Management's Views and Corrective Actions:

2022-020a: *Procedures for conducting privilege reviews are being documented in the System Security Plan, which is a work in progress and being actively populated.*

2022-020b: *Procedures will be published with policies on the ETSS SharePoint site and accessible for all agency IT staff. The location will be communicated out and training will be performed to ensure the procedures are understood and properly followed.*

Anticipated Completion Date: *October 2023*

Contact Person: *Brian Tardiff, CDO/CIO, CISO*
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Finding 2022-021	***(significant deficiency - new finding)***

DATABASE LOGGING AND ACTIVITY MONITORING

The State's current practices for database logging and activity monitoring at the database level needs improvement.

Criteria: Just as it is essential to have logging and monitoring at the application level for key financial and sensitive data to guard against unauthorized transactions and errors, it is equally important to have database level logging and monitoring in place to help guard against unauthorized changes occurring at the database layer outside of the scope of application controls.

Proper database logging, monitoring, and alerting is identified as an important step in securing the database by both the Information Systems Audit and Control Association (ISACA) and other IT security professionals as an industry best practice.

Condition: Database logging and monitoring for most State applications is not adequate across the entity. While the State has implemented processes to improve in this area, consistent application of controls and additional resources are needed.

Cause: Lack of an implemented uniform practice for database logging and activity monitoring.

Effect: The lack of database logging and monitoring for improper activity makes it more likely that key databases will be vulnerable to malicious attacks without detection. Risk to data integrity may result from unauthorized database changes that go undetected.

RECOMMENDATIONS

2022-021a: Complete implementation of a consistent and effective database logging and monitoring process across all major State applications. Prioritize applications/databases that contain critical financial and sensitive data.

2022-021b: Communicate policies and procedures for database logging and monitoring to assigned agency IT staff. Implement specific training in conjunction with the communication of the policies and procedures to ensure consistent application across the entity.

Management's Views and Corrective Actions:

2022-021a: The state has completed the first phase of database logging and monitoring for systems containing critical data as part of the Guardium project. Some systems were not able to utilize this technology due to the legacy technology in place. Many of those legacy systems are planned for replacement and moved to a SAS solution which will address the logging. This will be an ongoing process as the state has multiple RFPs in place to replace those technologies.

2022-021b: The State recognizes the need for better communications and for policies and procedures. And also, the need for better training. This will be an ongoing process as we utilize security training software and continuously revisiting those policies and procedures that are currently in place.

Anticipated Completion Date: *Through 2026*

Contact Person: *Alan Dias, Chief of Agencies and Enterprise Applications*
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Finding 2022-022	*(significant deficiency – repeat finding – 2021-021)*

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 policy and 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). During fiscal 2022, the State was in the process of modernizing its disaster recovery hardware and procedures. While this represents progress that will benefit the State going forward, it resulted in limited disaster recovery testing during the fiscal year.

Criteria: Industry best practices stipulate that disaster recovery testing be performed twice a year to accommodate the ever-changing IT systems environment. The State should perform a full disaster recovery test for critical applications 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 and the restoration priority has been established. In addition, further progress is needed to test all critical functionality of major systems and their applications. During the fiscal 2021 test, critical applications and databases were recovered, however, the State did not fully validate the system functionality.

Cause: The State's current modernization of its disaster recover hardware and procedures in fiscal 2022 limited its disaster recovery testing. The State's last disaster recovery test in fiscal 2021 did not fully validate the system functionality, a necessary requirement of a successful disaster recovery exercise.

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

RECOMMENDATION

2022-022: Establish a repeatable level of system restoration and incorporate business continuity planning within periodic disaster recovery testing.

Management's Views and Corrective Actions:

Documentation for all DR procedures and exercises, along with related recovery artifacts are 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. Due to global supply chain issues and massive shipping delays the arrival of equipment, relevant configuration and production implementation of our new Virtual Platform was pushed out until January of 2023. We are working aggressively with our vendors to move the DR stack to the awarded COLO site and perform the annual DR test with the proper distance between sites. Once complete, this will provide us with much more efficient, resilient and quicker method of recovery for all systems on the platform, and provide us with a much more realistic and repeatable process to recovery all production systems. Full stack move and completed DR test are expected by Q3 2023.

Anticipated Completion Date: *Q3 2023*

Contact Person: *Cesar Mendoza, Chief of Infrastructure and Operations*
Cesar.Mendoza@doit.ri.gov

Finding 2022-023	***(significant deficiency - new finding)***

INCIDENT RESPONSE TRAINING

The State needs to further enhance its coordination and training to improve its incident response capabilities in the event of a data breach.

Criteria: A strong and well-designed incident response program is required for the State to effectively respond to incidents such as a data breach initiated from outside the State network or an insider attack on agency infrastructure and systems. Per NIST 800-61, a key step in establishing an incident response capability includes "staffing and training the incident response team". This includes designated agency staff as well as DoIT personnel.

DoIT has an Incident Response Plan and has trained their staff on their various responsibilities, but also requires the agencies to be involved depending on the nature of the incident. This coordination is required under the shared services IT security model (DoIT and individual agencies) employed by the State which requires both parties to be prepared. Depending on the nature of the incident, the agency response may need to include business continuity plan activation.

Condition: During the 2022 audit, we noted that agency level incident response training varied widely from implemented and verifiable, to not occurring. Formal incident response training is essential so that all staff are clear on their roles and responsibilities in the event of an IT security incident (e.g., data breach).

Cause: Additional focus is needed to ensure that all designated agency personnel are properly trained and prepared to respond in the event of an incident affecting agency systems.

Effect: The lack of statewide incident response training increases the risk that the State will not properly respond, in a coordinated manner, to an IT security incident. Proper response to detected IT security incidents is critical to safeguarding the State's data and continuity of operations.

RECOMMENDATION

2022-023: Identify all agency personnel roles relating to incident response and implement verifiable training for all agency personnel based on their respective roles.

Management's Views and Corrective Actions:

DoIT will create a plan with timelines to identify the agency personnel responsible for responding to incidents affecting agency systems. In addition, the DoIT teams will also research and evaluate verifiable training for the agency personnel.

Anticipated Completion Date: *Q4 2023*

Contact Person: *Cesar Mendoza, Chief of Infrastructure and Operations*
Cesar.Mendoza@doit.ri.gov

INTERNAL CONTROL OVER FINANCIAL REPORTING -

OTHER FUND SPECIFIC FINDINGS

Rhode Island State Employees' and Electing Teachers OPEB System

Rhode Island Lottery

Employees' Retirement System of Rhode Island

Finding 2022-024	*(significant deficiency – repeat finding – 2021-029)*

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM - 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. 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.

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 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.

The State improved certain reporting on OPEB enrollment by ensuring that all pre-65 retirees were registered in the State's Workterra software platform which the State also utilizes to administer active employee benefits. This improvement provides systemic reporting of pre-65 enrollees and assists in ensuring their timely transition to Medicare and post-65 OPEB benefits. State employees, once enrolled in Medicare, are enrolled in Via Benefits which establishes a health savings account (HSA) for the retiree. The State funds a predetermined amount for the retiree who can utilize the funds to pay health claims or purchase Medicare gap insurance coverage. The State, however, lacks a complete system that it considers to be the official record of System enrollment.

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. 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>

2022-024a: Assess the resources necessary to effectively manage and administer the OPEB System to ensure all System functions are met and adequately controlled.

2022-024b: 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.

2022-024c: Evaluate assigned responsibilities for key functions and segregate certain responsibilities for incompatible functions to enhance controls over critical plan administrative functions.

2022-024d: Establish consistent procedures to identify deceased plan members and prompt timely termination of coverage.

Management's Views and Corrective Actions:

Management has reviewed the recommendations and agrees that is appropriate to consider administrative review and operational enhancements such as those described in the recommendations presented by the Auditor General. During FY 23, these recommendations will be presented to the OPEB Board for their consideration of next actions which can effectuate these recommendations.

<u>Anticipated Completion Date</u>: *June 30, 2024*

<u>Contact Persons</u>:
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Office of Management & Budget
Joseph Codega, State Budget Officer, OPEB Chair,
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Finding 2022-025	*(significant deficiency – new finding)*

RHODE ISLAND LOTTERY - INFORMATION SECURITY CONTROLS OVER SPORTSBOOK

Controls over sportsbook system access must be enhanced by requiring the sportsbook system contractor to (1) review and improve documentation of the bookmaker's access to the system and (2) obtain coverage of complementary subservice organization controls of the bookmaker.

Background: IGT Global Solutions Corporation (sportsbook system contractor), Bally's Corporation (owner and operator of the State's two casinos) and other third parties (e.g., bookmaker) are utilized by the Lottery to administer the overall sportsbook functionality. The Lottery only has a contractual relationship with the sportsbook system contractor; however, controls provided by certain subcontractors are integral to the overall control structure for sportsbook operations. For example, William Hill is the bookmaker contracted by IGT to provide odds and lines for the various sports markets being offered by the Rhode Island Sportsbook. The bookmaker's role is a key part of the sportsbook operation which requires the contractor to access the sportsbook system.

Criteria: System user's access should be limited to their business requirements (rule of least privilege). Design and granting of system access should support segregation of duties within the operation of the system and be consistent with overall internal control objectives.

Condition: Since the introduction of sports betting in Rhode Island, the Lottery has implemented a variety of processes and procedures designed to ensure proper financial and operational control over the sportsbook operations. These procedures, including enhanced monitoring of system access, continue to evolve to ensure that risks associated with sportsbook operations are effectively mitigated. During fiscal 2022, the Lottery contracted for an IT security audit to evaluate IGT and William Hill's policies and procedures relating to the sportsbook system. For several of the control objectives including those specific to William Hill's utilization of the sportsbook system, IGT could not provide documentation supporting the implementation and operation of those control objectives.

In addition, IGT is required to contract for the performance of a Service Organization Control (SOC) Report over the Rhode Island Sportsbook operations. The scope of that review did not extend to certain functions/processes of the subservice organization (i.e., William Hill). Specifically, the report details certain complementary subservice organization controls which are assumed to be implemented by the subservice organization and are integral to achieve the overall control objectives.

Controls should be enhanced by exploring options to ensure coverage of key controls within the overall sportsbook system functionalities performed by William Hill including both the evaluation and testing of relevant internal controls. This would provide the Lottery with assurances regarding the implementation and effectiveness of the bookmaker's controls over data submission, system access, and data integrity given their significant role in sportsbook operations. The Lottery should also continue monitoring sportsbook system access to ensure that established roles restrict access and align with the underlying user's sportsbook responsibilities.

Cause: IGT's responses to both the IT security audit and the SOC Report indicated that the defined subservice organization controls assessment had not been performed and documented. Insufficient evidence that these complementary subservice organization controls are in place and operating effectively is a weakness in internal control over the RI Sportsbook operation.

Effect: Inappropriate system access could undermine segregation of duty controls intended within the sportsbook operation.

RECOMMENDATIONS

2022-025a: Explore options to ensure coverage of key controls within the overall sportsbook system functionalities performed by the subservice organization (William Hill).

2022-025b: Continue monitoring of sportsbook system access to ensure that established roles restrict access and align with the underlying user's sportsbook responsibilities.

Management's Views and Corrective Actions:

The Lottery provides oversight of IGT and requires IGT to perform reviews over the sportsbook to ensure that policy, procedures, and controls are in place to monitor sports betting system access and ensure that activity within the sports betting system is reviewed and approved. IGT has the agreement with William Hill and IGT also has the oversight responsibility over William Hill to ensure they (William Hill) perform the functions as defined in IGT's agreement with the Lottery. IGT has stated to the Lottery that they have reviewed William Hill's access and is satisfied with the level of access to perform their job function within the system. IGT has provided the Lottery with dates for enhancing and providing additional documentation to control areas within the sportsbook.

The Lottery will continue to require IGT to provide sufficient evidence that IGT's subservice organizational controls are in place and operating effectively by William Hill. The Lottery will continue to require that the SOC report will extend to the financial reporting controls over IGT's subservice organization.

The Lottery (where contractually possible) will continue to ensure that IGT provides the necessary coverage oversight controls as it pertains to subservice organizations. The Lottery will continue to require IGT to effectively evaluate, test, and monitor its subservice organization's procedures and controls.

Anticipated Completion Date: *June 30, 2023*

Contact Person: *Mark Furcolo, Executive Director*
Rhode Island Lottery
MFurcolo@rilot.ri.gov

Finding 2022-026 ***(significant deficiency – new finding)***

EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND (ERSRI) - OVERSIGHT OF THE DEFINED CONTRIBUTION PLAN

Background: The System oversees a defined contribution (DC) plan for members which is part of the overall "hybrid" pension benefit approach adopted through pension reform efforts. The DC plan is administered totally by TIAA-CREF and ERSRI is reliant on information provided by TIAA-CREF for financial reporting purposes. No independent records are maintained by ERSRI for the DC plan activities.

As expected, total assets of the DC plan have grown considerably since plan inception and members are beginning to withdraw funds to meet their retirement objectives. Total assets in the DC plan at June 30, 2022 totaled $1.5 billion.

Criteria: The System should have sufficient information to support effective compliance monitoring and financial reporting for the defined contribution plan.

Condition: ERSRI does not receive information on the employer remittance of employer and employee contributions to the DC plan and therefore has limited information to ensure employer compliance with the DC plan provisions. Contribution compliance monitoring should be included within the risk-assessment process to determine effective controls are in place.

One municipality participating in the plan failed to remit all contributions and the omission was not detected timely.

As the plan matures and investment assets continue to grow, ERSRI should assess and strengthen their oversight of the DC plan to ensure compliance by the plan administrator and to fully exercise its fiduciary responsibility for member balances within the DC plan. This should include consideration of relevant risks and the development and formalization of an oversight/monitoring plan to meet this objective. Additionally, consideration should be given to modifying the existing Ariel contribution and benefit system to receive the employer data for the DC plan before transmission to TIAA-CREF. This would facilitate monitoring of contribution data and provide independent corroboration of amounts reported by TIAA-CREF as employer and employee contributions to the plan.

We observed instances where oversight and internal controls could be strengthened. For example, controls over the DC plan should include periodic (at least monthly) analytical reviews of investment growth and performance, contributions to and distributions from the plan and fees paid. The analytical reviews should include documentation of follow-up and resolution when actual results differ from expectations.

Cause: At the inception of the defined contribution plan, the plan design, enacted by legislation, provided for employer and employee contribution data to flow directly from the employer to TIAA-CREF without any data capture by ERSRI.

Effect: The System lacks sufficient accounting and contribution data to monitor compliance with contribution requirements and to validate reporting by TIAA-CREF.

RECOMMENDATIONS

2022-026a: Perform a risk assessment for the DC plan and identify areas where internal controls and oversight can be strengthened.

2022-026b: Consider modifying the existing Ariel contribution and benefit system to capture employer (employee and employer contributions) data for the defined contribution plan.

2022-026c: Formalize a DC monitoring plan to protect member plan balances, ensure compliance by the plan administrator, and enhance controls over financial reporting of the DC plan within the System's overall financial reporting.

Management's Views and Corrective Actions:

The State Investment Commission (SIC) contracts with a vendor that serves to monitor the investment activities of the DC plan. This vendor communicates with the Investments team regularly and reports to the SIC on a quarterly basis. ERSRI and Treasury feel confident the oversight functions performed with the vendor, the Investments team and the SIC serve as a strong monitoring process related to the investment activities of the DC plan.

ERSRI is currently analyzing control and oversight options with both the third-party DC administrator TIAA, and the Defined Benefit (DB) Line-of-Business (LOB) IT system (Ariel). Given the legally separate administrative expense structures of the DB Plan Trusts and the DC Trust, any IT system enhancements utilizing ERSRI's LOB system will require alternate funding considerations.

ERSRI will present control and oversight considerations and funding requirements to the SIC and the ERSRI Retirement Board during calendar year 2023.

Anticipated Completion Date: *June 30, 2023*

Contact Person: *Stacey Whitton, Chief Financial Officer, ERSRI*
Stacey.Whitton@ersri.org

DISCRETELY PRESENTED COMPONENT UNITS

Finding 2022-027	***(material weakness – repeat finding – 2021-031)***

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

2022-027: 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, please see below for action taken.

Management will correct the material weakness by ensuring adequate staffing including training 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 2022-028	***(significant deficiency – repeat finding – 2021-032)***

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

2022-028: 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, please see below for action taken.

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 2022-029	***(significant deficiency – repeat finding – 2021-035)***

THE METROPOLITAN REGIONAL CAREER AND TECHNICAL CENTER – GENERAL LEDGER MAINTENANCE

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 and reconciled before the audit. We noted a prior period adjustment was required to properly state district tuition and beginning net position, as well as an adjustment required to reconcile accrued payroll and payroll expense. Although, these adjustments were deemed to be material, we believe these adjustments were isolated incidents and therefore, are reported as a significant deficiency rather than a material weakness.

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 material adjusting journal entries, including a prior period adjustment.

RECOMMENDATION

2022-029: Management should follow their established internal controls surrounding the review and reconciliation of payroll. Additionally, we recommend management follows their year-end closing policy and procedures to ensure prior period adjustment are not detected as part of audit procedures.

Management's Views and Corrective Actions:

Management agrees with this finding as stated and although material, the adjustments in question were isolated as they were associated with either adjusting entries recommended by the predecessor audit firm, such as those related to accrued payroll, or adjustments that the Met identified as necessary however, sought the recommendation of the current audit firm during the year-end audit on how to properly account for the adjustment, such as those related to a prior year's district tuition adjustment. It is the Met's position that we retain a separate audit firm during the year to provide insight and recommendations on such accounting adjustments so that the trial balance is properly stated for the year-end independent audit.

Anticipated Completion Date: *Ongoing*

Contact Person: *Lucas Lussier*
The Metropolitan Regional Career and Technical School
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Finding 2022-030 ***(material noncompliance – repeat finding – 2021-030)***

RHODE ISLAND CONVENTION CENTER AUTHORITY – RESTRICTIVE COVENANTS

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

Condition: During the year ended June 30, 2022, the Authority was unable to fund the Operating Reserve requirement of the restrictive covenants for the RICC and the AMP pursuant to the indentures.

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

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

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

RECOMMENDATION

2022-030: 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.

Anticipated Completion Date: *Undetermined*

Contact Person: *Daniel McConaughy, Executive Director*
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Finding 2022-031	***(material weakness – new finding)***

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE – CAPITAL ASSETS

Criteria: Internal controls should be in place to provide reasonable assurance that financial statements are prepared in accordance with U.S. GAAP.

Condition: Rhode Island Division of Higher Education Assistance (RIDHEA) did not have controls in place to provide reasonable assurance that the financial statements include only assets that are owned by RIDHEA.

Cause: RIDHEA did not have formal internal controls to ensure assets transferred or sold were removed from the general ledger.

Effect: Prior year's financial statements contained an overstatement of capital assets of approximately $224,000. Current year beginning net position has been restated as a result of this error correction.

RECOMMENDATION

2022-031: RIDHEA should evaluate their processes and controls surrounding capital assets to determine if additional controls can be implemented to provide reasonable assurance that the financial statements contain complete and accurate amounts for capital assets.

Management's Views and Corrective Actions:

Management agrees with the finding and has restated net position to remove the capital assets.

Anticipated Completion Date: *Undetermined*

Contact Person: *Zachary Saul, Chief Financial Officer*
Rhode Island Office of the Postsecondary Commissioner
Zachary.Saul@riopc.edu

Finding 2022-032	***(significant deficiency – new finding)***

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE – CASH TRANSACTIONS

Criteria: Internal controls should be in place to provide reasonable assurance that cash transfers are properly made between bank accounts.

Condition: RIDHEA did not have controls in place to ensure cash from a closed bank account was properly transferred to another bank account of the agency.

Cause: RIDHEA did not have formal internal controls to ensure assets transferred or sold were removed from the general ledger.

Effect: RIDHEA closed a bank account and a check was issued by the financial institution. This check was misplaced and not cashed by RIDHEA. RIDHEA did not ensure that the funds from the closed bank account were properly deposited into another account.

RECOMMENDATION

2022-032: RIDHEA should evaluate their processes and controls surrounding cash to determine if additional controls can be implemented to provide reasonable assurance that cash transfers are appropriately tracked and accounted for.

Management's Views and Corrective Actions:

Management agrees with the finding and has instituted controls to close the reporting gap as of September 2022.

Anticipated Completion Date: *Undetermined*

Contact Person: *Zachary Saul, Chief Financial Officer*
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Finding 2022-033	***(material weakness – new finding)***

RHODE ISLAND INFRASTRUCTURE BANK (RIIB) – INTERNAL CONTROL OVER FINANCIAL REPORTING

Criteria: Internal controls should be in place to provide reasonable assurance that financial statements are prepared in accordance with U.S. GAAP.

Condition: The bank failed to properly record an intergovernmental receivable and related revenue of approximately $22 million at June 30, 2022.

Cause: Consistent with prior year accounting for single year state match funds, management believed that the FY2022 three-year supplemental match should be recorded when the funds were requested and received which occurred subsequent to June 30, 2022.

Effect: The originally issued financial statements were materially misstated.

RECOMMENDATION

2022-033: RIIB should work closely with the State of Rhode Island Office of the Auditor General to ensure that intergovernmental transactions are properly recorded.

Management's Views and Corrective Actions:

Based upon citations provided during subsequent discussions with the Rhode Island Office of the Auditor General, management agrees that the transaction does satisfy the "non-exchange transaction" standard and that the restatement is required under GASB and GAAP. Timely discussions with the Rhode Island Office of the Auditor General will ensure that future intergovernmental transactions are properly recorded.

Anticipated Completion Date: *Completed*

Contact Person: *Eileen Rose, Chief Financial Officer, Chief Operating Officer*
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ERose@riib.org

Finding 2022-034	***(material weakness – new finding)***

RHODE ISLAND PUBLIC TRANSIT AUTHORITY – RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

Criteria: Management is responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements, schedule of expenditures of federal awards, and all accompanying information in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Condition: During the performance of our audit procedures on the Authority's leases, we reviewed the electric bus lease agreement and discussed with management the intention of owning the electric buses at the end of the lease with the buyout option. Based on management's intention to purchase the buses, this transaction should have been recorded at the execution of the lease in 2018. This was corrected as a restatement in the current year financials.

Cause: The Authority did not have adequate policies or procedures in place to ensure the reconciliation of records timely and identify the errors relating to prior fiscal years.

Effect: Inaccurate amounts were recorded in certain areas including liabilities and capital assets in the prior fiscal years, which then required additional time to investigate and to correct discrepancies. The restatement amounts included an increase in accounts payable in the amount of $974,976 and an increase in fixed assets of $3,002,346.

RECOMMENDATION

2022-034: We recommend that the Authority enhance internal control procedures internally to ensure all new lease agreements and purchases of assets are reviewed for proper recording in accordance with generally accepted accounting principles.

Management's Views and Corrective Actions:

All balances have been restated going forward and this finding will be cleared.

Anticipated Completion Date: *Immediately*

Contact Person: *Christopher Durand, Chief Financial Officer*
Rhode Island Public Transit Authority
CDurand@ripta.com

Finding 2022-035 ***(significant deficiency – new finding)***

RHODE ISLAND PUBLIC TRANSIT AUTHORITY – CASH RECONCILIATIONS

Criteria: Management is responsible for (1) establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities; to help ensure that appropriate goals and objectives are met; (2) following laws and regulations; (3) ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and (4) ensuring that management and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements.

Condition: During the performance of our audit procedures on the Authority's cash reconciliations, we noted that the operating cash account had a continuing variance between the reconciliation and the general ledger for all of fiscal year 2022.

Cause: Cash reconciliations were not being done on a timely basis due to staffing shortages.

Effect: Monthly reconciliations with the operating cash account showed continuing variances for all of fiscal year 2022.

RECOMMENDATION

2022-035: We recommend that the Authority develop a set of controls to require the operating account be reconciled within a few days of the end of the month and all variances to be researched and resolved.

Management's Views and Corrective Actions:

Operating cash is continually being reviewed to find the discrepancies and make any changes necessary. RIPTA is having INIT re-train individuals to make sure the wave transactions are properly being recorded.

Anticipated Completion Date: *Immediately*

Contact Person: *Christopher Durand, Chief Financial Officer*
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Finding 2022-036	***(significant deficiency – new finding)***

RHODE ISLAND PUBLIC TRANSIT AUTHORITY – FARE REVENUES

Criteria: The Rhode Island Public Transit Authority should reconcile the daily farebox report and GFI Software daily summary report, as well as deposits to the related documentation.

Condition: During our current year testing of fare revenue policies and procedures, we noted all the days selected had variances (some immaterial and some more than 1% of revenue) between the daily farebox report and GFI daily summary report. We also noted immaterial variances between deposits and the related documentation and discrepancies in the coin deposits to the bank.

Cause: The Authority did not have adequate policies or procedures in place to ensure the reconciliation of records timely and reviewing reporting from GFI system in comparison to deposits to correct these variances going forward.

Effect: Daily reconciliations with the farebox reports and the GFI daily summary are consistently showing variances which, if not corrected going forward it could result in material variances.

RECOMMENDATION

2022-036: We recommend that the Authority develop adequate policies and procedures to correct this process going forward.

Management's Views and Corrective Actions:

All fare box revenue which has a difference of +/- 1 % percent is reviewed by Security.

Anticipated Completion Date: *Immediately*

Contact Person: *Christopher Durand, Chief Financial Officer*
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Management Comments

Management Comment 2022-01 ***(repeat comment – 2021-04)***

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE (RIDHEA)

The remaining activities of the RI 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 (RIDHEA) 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.

Findings 2022-031 and 2022-032 reported by RIDHEA's auditors further support this repeated comment by documenting the current control deficiencies inherent in RIDHEA's operations.

RECOMMENDATION

MC-2022-01: 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:

Since this response was provided, there has been change in the key finance positions for the Office of the Postsecondary Commissioner. The Office is in process of reviewing the organizational structure of the Finance Division. The control deficiencies that were reported by RIDHEA's auditors were transactions that were identified from prior years as part of the review by current OPC staff and audit firm. In addition, controls have been instituted to reduce risk and reporting gaps. OPC is taking the management comment under advisement and is having it assessed by its legal counsel. A structural change of this nature will need consideration and approval from the Council's Finance & Facilities Committee, with a recommendation to the full Council on Postsecondary Education.

Anticipated Completion Date: *June 30, 2023*

Contact Person: *Zachary J. Saul, Chief Financial Officer*
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Management Comment 2022-02 ***(repeat comment – 2021-06)***

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.

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 Office of the Attorney General, 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 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, 2022 detail future debt service requirements totaling $2.3 billion with more than $1.6 billion due at the end of the current debt service schedule in year 2052. 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 U.S. 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-2022-02a: Perform periodic analyses of projected debt service requirements reflecting actual operating experience and other economic factors.

MC-2022-02b: Seek administrative support for the TSFC to facilitate financial reporting and other operating requirements.

Management's Views and Corrective Actions:

MC-2022-02a: The Office of Accounts and Control (A&C) agrees with the need to perform periodic analyses of projected debt service requirements. A&C will present this to the TSFC board at the next meeting for their evaluation and recommendation.

MC-2022-02b: The Office of Accounts and Control (A&C) disagrees with this recommendation. In fiscal year 2022, the TSFC Board established an administrative support function separate from the State Budget Officer and within the Office of Accounts and Control to facilitate financial reporting and operating requirements for TSFC. This person also acts as a liaison to the different stakeholders. Additionally, a TSFC website was developed with the cooperation of the Division of Information Technology (DoIT) and launched in FY 2022 to facilitate financial reporting and comply with required filings. Furthermore, the Budget Office has designated an analyst to monitor and assist with the business of TSFC.

Anticipated Completion Date: *June 30, 2024 for MC-2022-02a*

Contact Persons: *Xiomara Soto, Financial Reporting Manager,*
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Management Comment 2022-03	***(repeat comment – 2021-07)***

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 held on behalf of others and/or pending distribution, General Fund escrow liability balances totaled $52.8 million at June 30, 2022. 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. We noted the following exceptions during the fiscal 2022 audit:

- 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-2022-03: Enforce monitoring and reconciliation control procedures for escrow liability account balances.

Management's Views and Corrective Actions:

As stated last year, the Office of Accounts and Control made significant improvements in strengthening the escrow account internal controls. A&C forcefully monitors timely submission, follows up with agencies, and works to resolve variances. A&C will continue its current efforts to monitor the progress of agencies responsible for these reconciliations.

Anticipated Completion Date: *Ongoing*

Contact Persons: *Office of Accounts and Control*
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Management Comment 2022-04	***(repeat comment – 2021-08)***

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 $6.5 million at June 30, 2022.

Efforts continued during fiscal 2022 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-2022-04: 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:

The department is continuing its efforts to reconcile the account. Together with accounts and control, we will review all available historic information and adjust and/or identify the remaining balance.

Anticipated Completion Date: *September 30, 2023*

Contact Persons: *Jane Cole, CFO, Department of Revenue*
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Steve Coleman, Chief, Division of Municipal Finance
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Management Comment 2022-05 ***(new comment)***

LEASE REPORTING UNDER GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENT NO. 87

Standardized procedures are needed to ensure the identification of lease transactions requiring future consideration of reporting under GASB 87.

The State implemented GASB *Statement No. 87 – Leases* in fiscal 2022. The State enlisted the help of an accounting firm to assist with implementation, and purchased a software solution to account for leases meeting the criteria of GASB 87 and compute the necessary information for proper presentation and disclosure of leasing activities in the fiscal year.

While the State's implementation of GASB 87 in fiscal 2022 was largely successful, we identified a few exceptions which required correction. Those exceptions included:

- Identification of two revenue leases (where the State is the lessor) that were omitted from the State's initial recording,
- Future rent payments for two leases were miscalculated as rent escalators were applied at the incorrect interval,
- Maximum lease end dates (inclusive of extensions) for two leases were not consistent with the terms stated in the lease agreements, and
- Interest rates applied to leases, based on the lease end dates, were not consistent with the rates adopted by the Office of Accounts & Control.

Considering the overall scope of the State's lease reporting, these exceptions were not considered to be significant and were corrected in the financial statements. To ensure future compliance with GASB 87 reporting requirements, the State should implement procedures to ensure uniform lease recognition and reporting by State agencies.

RECOMMENDATION

MC-2022-05: Implement standardized agency recording and reporting policies to ensure controls exist to identify future leases and monitor those procedures to ensure agency compliance.

Management's Views and Corrective Actions:

The Office of Accounts and Control (A&C) agrees with the recommendation. A&C will develop and disseminate a standardized agency recording and reporting policy to ensure controls exist to identify future leases. Further, A&C will monitor agency compliance with procedures stipulated in the policy.

Anticipated Completion Date: *June 30, 2023 for policy; Ongoing monitoring efforts.*

Contact Persons:
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Management Comment 2022-06 ***(repeat comment – 2021-10)***

OTHER POSTEMPLOYMENT BENEFIT (OPEB) FUNDING POLICIES

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.

Comprehensive Funding Policy

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 establishing and adopting comprehensive OPEB funding policies, which outline all the key provisions designed to responsibly fund an OPEB plan and calculate the actuarially determined employer 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-2022-06a: 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-2022-06b: 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 has consistently adopted valuations, including minimum funding level recommendations, which have been prepared in conformance with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. Management agrees that adopting a formal OPEB policy may build further commitment to these principles, practices, and standards. Management also agrees that periodic actuarial experience studies and actuarial audits are essential to the integrity of the OPEB system. During FY 23, these recommendations will be presented to the OPEB Board for consideration.

Anticipated Completion Date: *June 30, 2024*

Contact Persons:
Office of Accounts and Control
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Management Comment 2022-07 ***(repeat comment – 2021-13)***

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 repayment 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.

RECOMMENDATIONS

MC-2022-07a: Perform a comprehensive review of the operational and accounting procedures for the State Fleet Replacement Revolving Loan Fund.

MC-2022-07b: 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:

The Office of Accounts and Control assumed responsibility for managing and preparing loans and processing annual billings for the State Fleet Revolving Loan Fund before the issuance of this report. A&C performed a review of the operational and accounting procedures for the fund and is working on disseminating these to the respective parties.

Anticipated Completion Date:	*June 30, 2023 - MC-2022-07a* *Implemented - MC-2022-07b*
Contact Persons:	*Office of Accounts and Control* *Starria Sumner, Administrator Financial Management* *Starria.Sumner@doa.ri.gov* *Martires Mullins, Administrator Financial Management & Reporting* *Martires.Hernandez@doa.ri.gov*

Management Comment 2022-08 ***(repeat comment – 2021-14)***

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 to utilize its 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-2022-08a: 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-2022-08b: 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 (GMS) implementation project completed on schedule in December 2022. We are now in the adoption phase of the project. The GMS will result in a comprehensive database of state grantee awards, subrecipients, and subawards, including monitoring activities. Subrecipients will be users of the GMS. Subrecipient data, i.e., risk assessments, monitoring, and single audits and alternative financial audits will be viewable to all state agency grant managers.

Specific Updates:

MC-2022-08a: *The Grant Management System has a subrecipient monitoring module which we will begin to train state agencies on in April 2023. Training and technical assistance related to subrecipient monitoring will support the section of the new grant regulation, "State/Federal Monitoring and Auditing" 220-RICR-20-00-2.7.4, expected to be enacted March 2023. The regulation requires all state agencies to issue most new subawards through the GMS beginning 7/1/23. Once the subaward is issued through the system, subrecipient monitoring becomes part of the grant management business process. The Grant Management Office will train state agency staff on subrecipient monitoring best practices aligned with Uniform Grant Guidance. Single Audit Reports may be uploaded into the GMS and the system includes prompts for key items state agency staff should look for during review.*

MC-2022-08b: *As subawards are issued through the GMS, we expect to have a database of subrecipient and grantee entities. The database will exist within the GMS and will continue to grow as subawards are issued/managed through the GMS.*

<u>Anticipated Completion Date</u>: *Ongoing. Subrecipient monitoring module training and technical assistance April – June 2023. Grant regulation 220-RICR-20-00-2, March 2023.*

<u>Contact Person</u>: *Steve Thompson, Chief of Strategic Planning, Monitoring and Evaluation, Grants Management Office, Office of Accounts and Control Steve.Thompson@omb.ri.gov*

Management Comment 2022-09 ***(repeat comment – 2021-16)***

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 based on whether the State is providing space at a no-cost or reduced cost basis to the successful bidder that 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.

Generally accepted accounting principles require the State to consider and account for all lease arrangements 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 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 the size of the State that has centralized management of its properties.

RECOMMENDATIONS

MC-2022-09a: 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-2022-09b: 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:

DCAMM agrees with the recommendations. The State of Rhode Island's audit of the Fiscal 2021 financial statements resulted the same in a finding concerning private entity usage of State properties. Most of these instances relate from group homes under the control of BHDDH and, to a much lesser extent, DCYF. Two other situations result in non-State entities using State property 1) affinity groups such as the Colonial Dames, Kentish Guard and Civil Air Patrol and 2) consultants and / or contractors working for State agencies who use State offices as their primary place of work. In response, the following actions have been taken:

1. *DCAMM has informed BHDDH and DCYF leadership that as existing service contracts with providers expire, they must reference an amendment to the agreements which will be a lease for the property used. The lease will be based on a fair market rate determined by a third party. The past practice of $1 a year will no longer be allowed for new agreements. Furthermore, all such agreements will require approval by the State Properties Committee.*

2. *DCAMM will update the inventory of all affinity groups using State property. The groups will require a State agency to sponsor their use of the facility (or facilities). A lease agreement will be drafted, based on a fair market rate and be brought to the State Properties Committee for approval.*

3. *DCAMM will annually update the inventory of all contractors and / or consultants who require space in State owned property. The list will include the firm's name, individual's name, term of the engagement, State agency sponsor and responsible party who will be a Director level or above in the State agency. The list will be presented to the State Properties Committee on an annual basis for information only (not for approval). There will be no funds exchanged in relation to space used by the contractors / consultants.*

Anticipated Completion Date: *June 30, 2023*

Contact Person: *David Patten, Director*
Division of Capital Asset Management and Maintenance
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Management Comment 2022-10 ***(repeat comment – previously finding 2021-016)***

THIRD-PARTY INSURER RECOVERIES FOR VACCINE ADMINISTRATION AND COVID TESTING

Third-party insurance reimbursements for COVID testing totaling $6.7 million at June 30, 2022 are pending (1) credit to the federal government for previously reimbursed costs or (2) recognition as general revenues.

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.

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, 2022 totaled $6.7 million. 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.

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. Credits to federal programs have not been applied for third party insurer recoveries. With State administered testing and vaccine administration significantly declining during fiscal 2022, the amount of reimbursements pending credit to federal programs is known and not deemed significant to the State's financial statements.

RECOMMENDATIONS

MC-2022-10a: 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.

MC-2022-10b: 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 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. When submitting reimbursement requests to the federal government, the State provided an estimate of $9,535,500 as a benchmark of anticipated receipts from third-party insurers for COVID-19 testing. This will be reconciled as of 6/30/2023. This was a manual effort to correct a one-time process issue that was detected in February 2021.

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. RIDOH has received two reimbursement checks from Doctor's Test Center, one for $49,458.00 and the second for 45,404.00. These were credited to the applicable Covid Vaccine account 4675624.02 as program income.

Anticipated Completion Date: *6/30/2023*

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