



# Audit Summary

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## State of Rhode Island Findings and Management Comments Resulting from the Audit of the Fiscal 2023 Financial Statements

*Fiscal Year Ended June 30, 2023*

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, 2023. The State's management has responsibility for, and maintains internal control over, financial reporting. *Government Auditing Standards* (GAS) require that we communicate deficiencies in internal control over financial reporting and material noncompliance based on our audit.

Management's responsibility for implementing and maintaining a system of internal control is foundational to ensuring complete and accurate financial reporting, compliance with federal regulations, and safeguarding assets of the State. This responsibility is defined in State statute and federal requirements. RI General Law section 35-14-3, *Agency Responsibilities*, under the State's Financial Integrity and Accountability statutes, mandates that "State agency heads are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes: (1) Documenting the system; (2) Communicating the system requirements to employees; and (3) Assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions."

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's current accounting and financial reporting system lacks the integration, functionality, and controls of a comprehensive Enterprise Resource Planning (ERP) system. The lack of integration has led to various manual processes being implemented over time which are prone to error and lack compensating controls to ensure accurate and complete financial reporting.

The multi-year implementation of a new 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.

The State can continue to improve its consideration of controls over functions performed by external parties by enhancing the use and documentation of Service Organization Control (SOC) reports. These improvements are necessary and consistent with management's responsibility for the overall adequacy of the design and operation of internal control.

The complexity of Medical Assistance (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 38% 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.

| Summary of findings and management comments related to the audit of the State's Fiscal 2023 Financial Statements |                    |                 |       |
|--|--------------------|-----------------|-------|
|  | Primary government | Component units | Total |
| <b>Findings related to the financial statements</b>  |                    |                 |       |
| Material weaknesses in internal control  | 11                 | 2               | 13    |
| Significant deficiencies in internal control   | 12                 | 3               | 15    |
| Material noncompliance   |                    | 1               | 1     |
| <b>Management Comments</b>   | 7                  |                 | 7     |

Controls are lacking to ensure the completeness and accuracy of reported Medicaid accruals in conjunction with the State's fiscal closing. Material audit adjustments were required to ensure the completeness and accuracy of reported program accruals.

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.

The accumulation of significant deficits and surpluses in internal service funds need to be avoided to ensure accurate financial reporting and compliance with federal regulations. Significant deficits and surpluses in internal service funds are not allowed by generally accepted accounting principles and federal regulations as such amounts represent the understatement (deficits) or overstatement (surpluses) of expenditures in other funds included in the State's financial reporting.

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.

A significant number of material audit adjustments were required during our audit of the State's fiscal 2023 financial statements. Material audit adjustments are indicative of weaknesses in controls over the preparation of financial statements.

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.

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 record the disposal of infrastructure assets when retired or replaced.

The State updated its current cybersecurity 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'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.

The State has not performed disaster recovery testing of critical applications since fiscal 2021. The State should formalize identification of major systems, standardize application testing, and incorporate business continuity planning within its overall disaster recovery policy and testing.

In addition to findings that impact Statewide controls over financial reporting and information security, our report includes findings specific to the 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 7 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 these activities should be accounted for within the State's General Fund rather than as a discretely presented component unit.

The Tobacco Settlement Financing Corporation should periodically update its projected debt service requirements to reflect operating and other economic factors.

Agency specific policies to conduct periodic physical inventories of capital assets should be formalized to improve controls over capital assets. Agency procedures and accountability has become especially important with the increase in mobile technology (i.e., laptops and tablets) use in recent years to support hybrid work schedules.

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

***The audit report is available on our website - [www.oag.ri.gov](http://www.oag.ri.gov) or by calling the office at 401.222.2435***