

Office of Management and Budget

Department of Administration

ANNUAL REPORT OF INTERNAL AUDIT ACTIVITIES

Fiscal Year 2021

Message from the Chief...

On behalf of the Office of Internal Audit (OIA), I am pleased to present the Fiscal Year 2021 Annual Report of Internal Audit Activities. The purpose of this annual report is to demonstrate that the State internal audit function is operating as intended, and to establish our accountability to the Internal Audit Advisory Group. This report highlights the outcomes of key activities performed by the OIA during Fiscal Year 2021 to help management identify and address significant risks facing the Executive Branch of government. The OIA mission is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. We strive to improve operations and help ensure state agencies operate with efficiency and integrity by making recommendations for corrective action, generally as part of audit or review reports. Our authorizing statute requires audit reports be posted publicly. These reports can be found on our website at <http://omb.ri.gov/internal-audit/>.

The OIA adheres to the standards promulgated by United States Government Accountability Office (GAO), American Institute of Public Accountants Generally Accepted Government Auditing Standards (GAGAS) and The Institute of Internal Auditor's (IIA) standards and code of ethics. OIA expects each member of the office to demonstrate high standards of conduct and ethics as well as appropriate judgment and discretion.

Staying Agile

FY 2021 was a challenging year for OIA and state government. The COVID-19 pandemic has continued to alter how state government delivers services to the citizens of our state and the work performed by the OIA. During fiscal year 2021, OIA met the challenges presented by the pandemic by adjusting our audit schedule to address emerging risk, providing support to management in critical areas, and utilizing our investigative resources to aid in the mitigation efforts.

The traditional role of the OIA is to work with management to navigate risks and provide assurance that existing governance, risk management, and control processes are in place and optimized. During this pandemic year, OIA was called upon to go beyond our traditional role and supply support to critical operations in the emergency management, health and recovery efforts. OIA supported the National Guard through payroll administration and staffed the agency with an acting CFO.. The office identified that our investigation resources could assist RIDOH in their contract tracing efforts and volunteered our staffs' time in this effort. We adjusted our audit schedule to concentrate on relief and recovery efforts including supporting the Executive Office of Health and Human Services (EOHHS) in the administration of their loan programs.

I am proud to say that the OIA staff responded exceptionally when presented with this challenge. OIA managers and staff were open to new and changing assignments that took them beyond their standard job roles making our team a valuable resource.

Looking Ahead

The Fiscal Year 2022 Audit Plan reflects the use of audit resources towards Pandemic Recovery program compliance audits, risk-based audits, continuous audit development and fraud targeting enhancement. We believe that the continued presence of our auditors may translate to a decrease of special requests from senior management, reduce the risk of misspending by subrecipients, and provide more audit coverage.

I would like to thank the Directors of the Department of Administration and Office of Management and Budget for their continued support. I would also like to thank the internal audit staff for all their hard work, commitment to our profession, and continued dedication to the citizens of our State.

Respectfully,

Mike Sprague, CIA

Acting Chief

Annual Report of Internal Audit Activities

FY 2021

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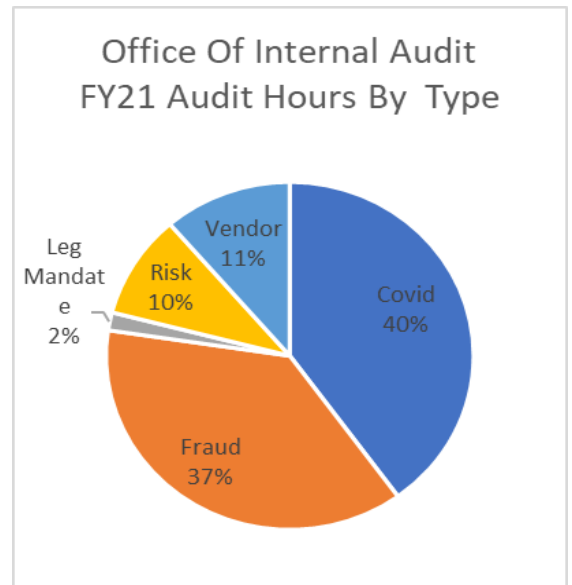
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Pandemic Response Efforts

During fiscal year 2021 and continuing into fiscal year 2022, the OIA redeployed staff to assist management. The redeployment of OIA resources improved state agency ability to mitigate risks and impacted the audit plan. OIA reevaluated risk based on the challenges presented by the pandemic and dedicated a large portion of the staff's efforts to assist in and monitor some of the state's mitigation and recovery efforts. In total, Covid related work accounted for 40% of the department total audit hours. Below is a detailed list of how the OIA assisted in the state's response to the pandemic.

Executive Office of Health and Human Services (EOHHS) – Workforce Stabilization Loan Program Recipient Audit (WFS)

The Governor established the WFS program during April 2020 to stabilize and maintain low-wage congregate care workforce on the frontlines of the COVID-19 public health crisis. The purpose was to provide payroll support for frontline workers who worked with seniors, people with developmental disabilities, individuals with mental health and substance abuse disorders, and young people in RI Department of Children, Youth, and Families congregate care facilities who earned less than twenty dollars (\$20) per hour. The program was designed as a forgivable loan program. Providers applied to the Executive Office of Health and Human Services (EOHHS) to participate in the program and signed an agreement that outlined the terms and conditions necessary for the loan to be forgiven. During FY 21, the OIA audited 170 providers for compliance with the terms of the subrecipient grant agreement. Since the nature of the agreement called for an estimation of payroll expenses, OIA performed a reconciliation of the amount the provider received to the amount disbursed to employees. Discrepancies were requested to be returned to the State of RI or paid out to the respective employees. The audit identified approximately \$2.8 million due to the State. After the conclusion of the audit, three providers filed an appeal. The OIA worked with EOHHS and the Department of Administration Legal Office to address the appeals. Approximately 40% of project hours for the performance unit was devoted to this audit in FY 21.



Department of Administration, Hospital Assistance Partnership Program (HAPP)

The HAPP is a major component of the state response to the coronavirus pandemic. Phase 1 and Phase 2 represents \$95M and \$125M Cares Act grants, respectively, to stabilize 9 hospital groups in Rhode Island. The Continuous unit completed an audit of Phase 1 during FY21. The unit also performed an initial risk assessment and planned the second phase of audit work. On March 2, 2021, the Pandemic Recovery Office released a memorandum which extended the deadline for HAPP funds to be expended until December 31, 2021. The second phase of the audit will be considered after this date.

Rhode Island National Guard (RING) Financial Leadership

The Performance unit Senior Internal Audit Manager was assigned to assist the National Guard as a part-time CFO. The National Guard requested assistance in this area due to a long-term leave of absence in this key financial position. This arrangement is documented in a memorandum of understanding between the Office of Management and Budget (OMB) and RING. This assignment continues into FY 22.

Office of Management and Budget, Pandemic Recovery Office (PRO)

OIA worked collaboratively with the PRO throughout fiscal year 21. The Chief of the Office of Internal Audit assumed the role of Acting Director of the PRO. Additionally, a Senior Internal Auditor from the Fraud team was loaned to the PRO for an extended period.

Department of Health (DOH) and RI Emergency Management Agency (RIEMA), FEMA Applications

The OIA assisted the DOH with the preparation of its quarterly FEMA applications.

Department of Health (DOH) Contact Tracing

The Data Analytics unit and Fraud team assisted DOH with contact tracing and helped identify individuals whose provided location information was inaccurate. This accounted for approximately 18% of the fraud unit's hours during FY 21.

UI related Benefit Fraud

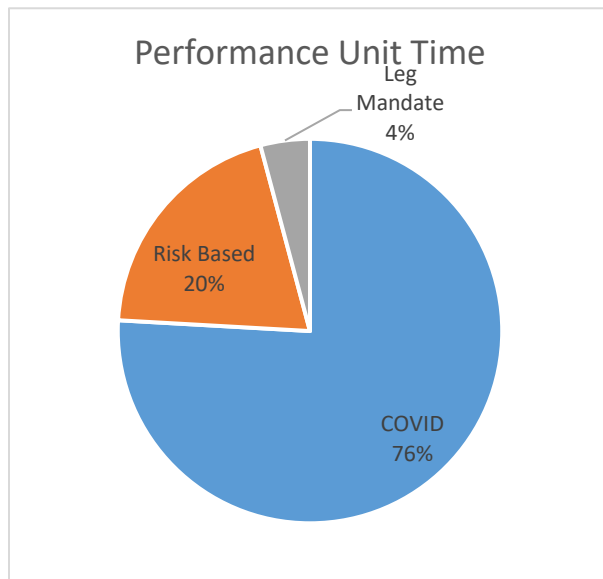
Through data analytics within OIA and a collaborative effort with DLT, the Fraud Unit has been able to identify leads due to the pandemic that stem from clients obtaining unemployment benefits, yet not reporting that job income initially to the Department of Human Services (DHS) in order to receive benefits across all programs.

Other Efforts

The efforts devoted to pandemic response accounted for approximately 40% of OIA's hours, and with 37% of the groups time dedicated to DHS fraud only 23% remained for risk based and vendor audits. Audits and management advisory services because of the pandemic will continue to account for a bulk of OIA's work into fiscal year 2022. The decrease in available resources due to leave and assisting other divisions impacted our ability to complete or start audits.

Performance Unit

The majority of the performance unit's time was devoted to a compliance audit of the Workforce Stabilization Loan Program (WFS) administered by the Executive Office of Health and Human Services (EOHHS).



The OIA completed six performance audits during the fiscal year: 2 audits of state agencies and 4 audits of quasi-public agencies. These reports included 45 recommendations to improve operations or to strengthen internal controls. Additionally, two audits are currently underway and will be carried into fiscal year 2022: statewide succession planning and CRF payroll allocation. We have also responded to departments' and agencies' requests providing examples of best practices and opinions regarding controls over processes and other management advisory services. A complete list of audits performed, and recommendations proposed during the fiscal year can be found at Appendix 1.

Audit Plan Completion

The increased reputational, fraud and financial risks associated with the COVID-19 pandemic response and related federal stimulus affected enterprise-wide assessment of control risks and the resulting audit plan. During Fiscal Year 21, the established benchmark for audit plan completion (75%) was not calculatable as the audit plan was adjusted quarterly to reflect the changing risk environment and account for resource availability. This is a direct result of staff working as part of the Pandemic Response Office Compliance team, agency staff not available due to remote work, and long-term leave of two staff members.

Management Corrective Actions (MCA)

MCA Comparison to Hours

Our FY 21 audit program work produced 6 public audit reports that included MCAs. Comparison of MCAs and hours for the public audit reports are summarized in the below chart.

Functional Area	# of MCA	Total Hours	MCA %	Hours %
Auxiliary/Bus Dev	28	1057	62%	65%
Quasi Audit	17	575	38%	35%

Of the 45 MCAs issued during the current fiscal year only 18% are outstanding and are classified as follows:

- Elevated Risk: 1
- Intermediate Risk: 7

Outstanding MCA Summary

MCAs are classified initially as open and are moved to closed status after validation by auditors that the agreed upon corrective actions have been completed by management in accordance with OIA's procedures, the associated risk has been adequately mitigated and sustainable improvement has been achieved, or management has documented the acceptance of risk. As of fiscal 2021 close, no elevated risks were accepted by management. Management addressed 77% of the open MCAs from FY 20.

Outstanding MCA

Fiscal 20 Balance	78
Fiscal 21 Issued	45
Fiscal 21 Not Due	31
Fiscal 21 Closed	66
Fiscal 21 Balance	26

As noted above, 26 recommendations for improvement remain unresolved. The status of the outstanding corrective actions is shown in the chart below.

Outstanding Management Corrective Action

Time Period Outstanding	0-3 Months			3-6 Months			6-12+ Months			Grand Total	
	Risk Level	L	M	H	L	M	H	L	M		H
CCRI- Internal Payroll								1			1
RIC- Internal Payroll							4	3			7
MET							8				8
DLT- WRS									2		2
Quasi- TSFC		1	1								2

DOC- Sentence Reduction Credits	2		4		4					
DOA-HR Payroll	2		2		2					
Grand Total	0	3	1	0	0	0	0	17	5	26

Discussion of Outstanding Recommendations

Community College of Rhode Island- outstanding recommendation was not addressed during the fiscal year. System changes are required to capture the data and could not be accomplished to align with the State’s deadline for the Affirmative Action Plan (AAP). The draft AAP submitted to the State includes a notation that part time employees are not included. The objective will be addressed in next year’s plan.

Rhode Island College –Informed by management that the obstacles for failure to complete management corrective action regarding internal payroll and processing policy development are budget cuts. In March 2020, management asked for an extension until December 31, 2020 for some of the recommendations. As of June 2021, management stated that due to the pandemic and fiscal challenges during the fiscal year the progress on the recommendations has been paused.

Department of Education, Metropolitan Regional Career and Technical Center- Follow-up in process.

Department of Corrections, Sentence Reduction Credits- Change in management resulted in a delay addressing the recommendations. DOC is now working to address the outstanding recommendations.

Department of Labor and Training, Workforce Regulation and Safety Unit- Most of the recommendations have been implemented. The two outstanding recommendations are on hold because of the pandemic and DLT’s executive office focus on unemployment matters.

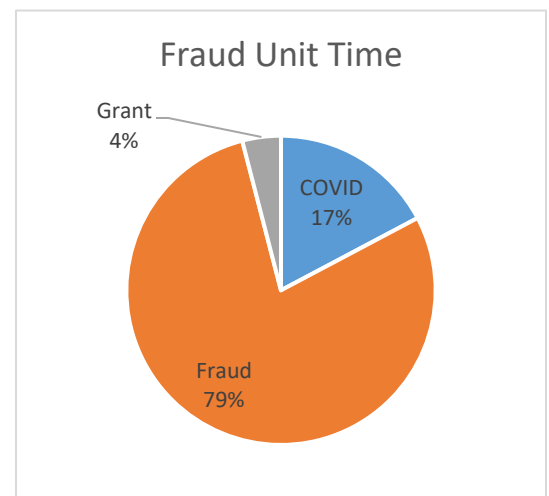
Tobacco Settlement Financing Corporation- Follow-up in process.

Department of Administration Division of Human Resources Enterprise Payroll Process Audit- Follow-up in process for two issues that just became due as of June 30, 2021.

Fraud Unit

The Fraud unit continued to use its resources to identify and investigate fraud within the DHS programs. Investigations are initiated from a variety of sources including tips from the public, referrals from DHS field employees, and data analytics tips. In addition to fraud investigations, the unit is the recipient of a grant from the USDA for the enhancement of its implementation of the SNAP Fraud Framework.

As part of an ongoing initiative, data analytics within the OIA is working collaboratively with the Department of Labor and Training (DLT) to identify leads due to the pandemic that stem from clients obtaining unemployment benefits, yet not reporting that job income initially to the Department of Human Services (DHS) to receive benefits across multiple programs.



Case Resolution

Upon completion of investigations, the fraud unit management decides whether to proceed with the case criminally or administratively. In FY 2021, the fraud unit proceeded with 94 cases; 56 criminally and 38 administratively.

Office of Internal Audit				
Investigations Division				
Cases Prosecuted FY 2021				
Disposition	SNAP		CCAP	
	Cases	Amount	Cases	Amount
Pending	21	\$145,483	3	\$320,052
Disposed / Pled Nolo	18	\$136,864	3	\$46,308
Dismissed with Restitution	6	\$15,185		
Diversion	5	\$13,032		
Total Criminal	50	\$310,564	6	\$366,360
Waivers	33	\$97,178		
Administrative Hearing	5	\$6,513		
Total Civil	38	\$103,691	0	\$0
Grand Total	88	\$414,255	6	\$366,360

Significant Investigations

Child Care Assistance Provider (CCAP)

An investigation commenced upon interviewing a client who stated her son had not attended a CCAP childcare provider since the child began Kindergarten September 05, 2017. DHS records showed that CCAP payments had been made to this provider significantly past the date of last attendance testified to by the child's parent. After significant background research into DHS data, trips to the CCAP provider, review of documentation and interviews with management, investigators identified multiple cases of DHS being charged for services not delivered. The unit turned over its investigative findings to the State Police and the Attorney General's office. State Police White Collar Crime Unit worked in collaboration with fraud unit investigators who accompanied State Police during a search warrant of the premises to retrieve all documents. This investigation resulted in the issuance of an arrest warrant for the owner of the day care. The owner was charged with obtaining money under false pretenses totaling \$209,545.88 for the period August 29, 2016 through October 31, 2019. The case is currently pending in court with a court date of August 12, 2021.

State Employee

Investigators commenced an investigation pertaining to an employee of the State of Rhode Island, Department of Human Services (DHS) upon receipt of information regarding eligibility and income of a Supplemental Nutrition Assistance Program (SNAP) benefit recipient. The State employee and spouse have been receiving SNAP benefits since 2016 and did not report the correct household composition and failed to report income. The spouse applied for his own SNAP benefits but reported same the address and did not report workers compensation or employment income. The failure to report income resulted in an overpayment of \$41,685.18 Both cases against the employee and the spouse have been disposed of by the court with an order to pay restitution in the above amount.

SNAP and CCAP Fraud

From a lead generated by data analytics, a couple was investigated for receiving SNAP and CCAP benefits while not qualifying due to income. A married couple with two minor children whose income exceeded the eligibility threshold applied for benefits indicating they did not live together. Investigative resources indicated that the couple did live together and that their resources were significant enough to disqualify them from receiving public assistance. The couple owned rental properties and resources indicated income in excess of \$100,000. Investigators referred this case to State police who

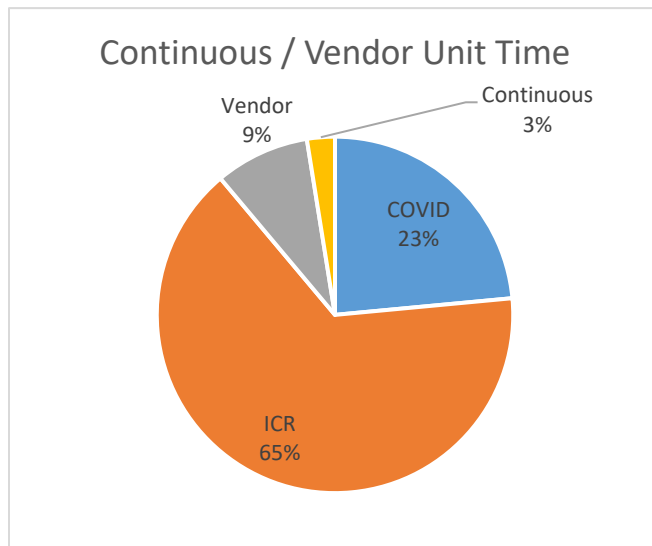
arrested the couple for fraudulently obtaining public assistance in the amount of \$65,000 and conspiracy. This case was featured in the United Council on Welfare Fraud Newsletter.

Continuous / Vendor Unit

Architectural and engineering firms that are engaged by RIDOT are required to submit an indirect rate request that will be the basis of their reimbursement for the following year. The unit has had to make significant adjustments to the indirect cost rate (ICR) review process due to the pandemic related Paycheck Protection Program (PPP) forgivable loans.

A policy and procedure has been developed and reviewed with RIDOT for the implementation of an ICR Safe Harbor program. The Safe Harbor program establishes requirements for a firm to be granted a default indirect cost rate where one has not been calculated before. The release of this policy has been put on hold as not to coincide with the release of the PPP policy.

The unit completed 1 vendor audit and 49 indirect cost rate reviews of RIDOT architectural & engineering vendors during the fiscal year. One contract review is being carried over to FY 22.



Vendor Review

The Office of Internal Audit (OIA) completed a vendor compliance audit of TranSystems Corporation for the period of July 1, 2017 through June 30, 2019. The objectives of the audit were to determine if invoiced costs were adequately supported; adhered to contract terms and to applicable state laws, rules and regulations; and to determine if expenses were allowable and in compliance with the Federal Acquisition Regulation (FAR). Issues were found with timely submission of progress reports to the Department of Transportation and with late payments made to the vendor's subcontractors.

Appendix 1 – Final Audit Reports Issued Summary

Compliance Audits

Department of Administration- Hospital Assistance Partnership Program (HAPP)

OIA examined all hospitals compliance efforts with the HAPP phase one contracts. It was determined that all hospitals were substantially compliant with the contract provisions except one. One hospital had not set up segregated accounts within their accounting system to segregate CRF related expenses. The hospital has taken corrective action to resolve this issue.

Executive Office of Health and Human Services- Workforce Stabilization Provider Audit

OIA reviewed 170 providers for compliance with the terms of the subrecipient grant agreement. The audit identified approximately \$2.8 million due to the State. Three providers filed appeals and are being addressed in collaboration with Executive Office of Health and Human Services as well as Department of Administration Office of Legal Services. As of the issuance of this report, appeal cases were resolved in favor of EOHHS; one appeal hearing was postponed until the second quarter of FY22.

Operational/Business Development Performance Audits

Department of Corrections Sentence Reduction Credits

Recommendations focused on ensuring programs and education is adequately recorded, tracked, and approved, improving the process to monitor and revoke IT access rights, and improving the process for loss of behavioral good time. Specifically, the following was recommended:

- Standard operating procedures applicable to all facilities and instructors need to be created, and DOC should consider standardized attendance and evaluation forms for all instructors and correctional facilities and a requirement for inmate signatures on attendance sheets,
- Delegate the responsibilities for detailed review of program awards to appropriate staff; train staff to perform award approvals in accordance with RIDOC policy,
- Implement data validation controls in the IT System to address program award recommendations which do not meet eligibility criteria,
- Terminate access for all users who no longer require system access,
- Review and verify all records accessed by terminated users,
- Maintain access control logs for all authorized system users,
- Improve process for communicating end-user terminations to IT administrators so that access rights can be removed timely.
- Improve process for monitoring and timely updating behavioral good time balances when behavioral infractions occur.
- Implement a process to reconcile monthly disciplinary actions with behavioral good time reductions

Department of Administration Human Resources Enterprise Payroll Process

Recommendations were grouped into two categories: implement and operationalize standardized enterprise-wide policies and procedures for time recording and reporting and determine functional system design requirements. Specifically, the following was recommended:

- Integrate contractual amendments, settlement agreements or arbitration decisions into future contracts
- Standardize time reporting
- Develop, implement, and communicate a policy for conversion of annual salaries to hourly rates.
- Develop, implement, and communicate a SOP which adheres to the Federal Department of Labor methodology for calculating overtime when an alternative method is not required by contractual obligation.
- Develop, implement, and train staff regarding a statewide policy consistent with RIGL § 36-4-63 documenting the specific forms of leave which must be recaptured prior to earning overtime.
- Implement a SOP to recapture or limit the discharge of compensatory time during weeks in which overtime work is performed.
- Integrate Human Resource and Payroll information
- Improve payroll authorization controls
- Maintain documentation of supplemental payment eligibility criteria for reference when preparing the system design requirements (SDRs) for the proposed HRIS.
- Design a formal change management process in which application controls are updated in accordance with any future contract amendments, and statutory or regulatory changes
- Include SDR for application controls which detect all relevant leave time discharged and automatically recaptures overtime in accordance with RIGL §36-4-63.

Legislative Mandate

Department of Administration

- Financial Integrity and Accountability Report

Quasi-Public Audits

Rhode Island Convention Center Authority (RICCA)

The RICCA did not fully comply with all the requirements of the Quasi-Transparency Act, specifically it did not complete a self-evaluation based on established performance measurements once every three years, or document an annual, formal executive performance review. Additionally, quarterly contracting reports submitted to the Secretary of State did not list the owner's program manager for the Clifford Garage Street Parking Garage Construction Project. RICCA should document and implement a vendor management policy to mitigate third party risk. There needs to be improved communication of project status between the Board and management.

Rhode Island Tobacco Settlement Financing Corporation (TSFC)

The TSFC did not fully comply with all the requirements of the Quasi-Transparency Act, specifically it did not publish to a website all required information applicable per Rhode Island General Law 42-155. TSFC should either propose legislation to the General Assembly to remove them from the Act or comply with all requirements dictated by law.

Rhode Island Turnpike and Bridge Authority (RITBA)

The RITBA is complying with the Quasi-Public Corporations Accountability and Transparency Act. RITBA should request the electronic toll processing vendor to complete a SOC 1 Type 2 report to ensure complementary user controls are appropriate.

Rhode Island Public Transit Authority (RIPTA)

Improvement is needed for financial budgeting, forecasting, and strategic planning. RIPTA should perform operational revenue and expense forecasting for a three to five-year span and revise/update the forecast each year. Also, a

comprehensive financial risk assessment that is modeled after an established framework should be performed. Management should document a strategic plan for a three to five-year span that addresses risks and aligns with overall organizational goals. The audit also identified a need for improvements regarding board reporting and auditor communication. The finance committee of the board should schedule a presentation from the Independent Auditors with all conclusions from the audit, including the Management Letter Comments addressed to the Board, either during public session or the executive session if sensitive matters are presented. Additionally, the progress of remediation for reoccurring Management Letter Comments should be presented to the Finance Committee of the Board either by management or the auditors at least annually. Lastly, the audit identified policy and procedures improvements. RITPA should review and approve policies and procedures on an annual basis to determine whether revisions or changes are necessary to accurately reflect the current financial framework and environment. Also, it should document and approve specific cash management and investment policies and procedures, as well as, specific policies and procedures for employees to request and supervisors to approve overtime pay.

