

OFFICE OF MANAGEMENT AND BUDGET

DEPARTMENT OF ADMINISTRATION

ANNUAL REPORT OF

INTERNAL AUDIT ACTIVITIES

Fiscal Year 2022

Message from the Chief

On behalf of the Office of Internal Audit (OIA), I am pleased to present the Fiscal Year 2022 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 2022 and 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 Government standards promulgated by United States Government Accountability Office (GAO), American Institute of Certified Public Accountants (AICPA), 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.

Transitioning Back

FY 2022 continued to be a challenging time for OIA and state government. The COVID-19 pandemic has continued to affect how state government delivers services to the citizens and the work performed by the OIA. During fiscal year 2022, OIA met those challenges by continuing to support various state departments that were directly responsible for the COVID-19 response efforts, in a more limited capacity, and then by beginning the transition back to more traditional internal audit work.

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. Continuing into this second pandemic year and beginning the third, 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 and the Department of Business Regulation by supplying financial leadership. We adjusted our audit schedule to concentrate on relief and recovery efforts, including supporting the Pandemic Recovery Office with their Coronavirus Relief Fund compliance efforts, and initiated a soon to be concluded review of rent relief funds administered by Rhode Island Housing.

I am happy to report OIA staff continued to respond 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 2023 Audit Plan reflects the use of audit resources towards the completion of audits proposed in the FY2022 plan as well as risk-based audits and performance management coordination.

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 Chief

Annual Report of Internal Audit Activities FY 2022

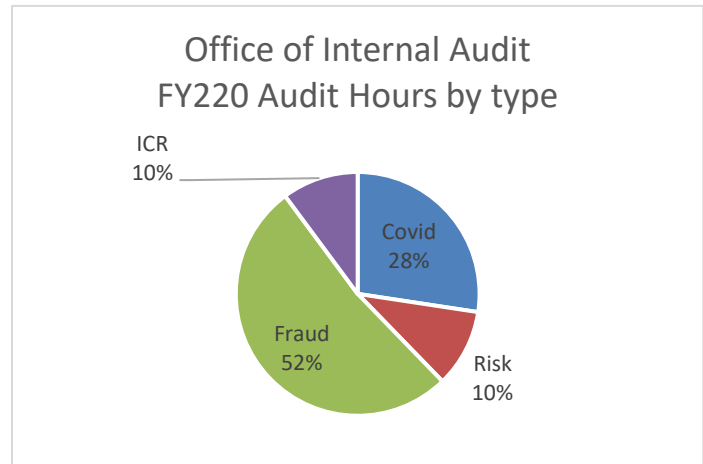
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Fiscal Year 2022 Audit Results

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 continued to reevaluate 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 28% of the department total audit hours and with 52% of the groups time dedicated to DHS fraud only 20% remained for risk based and RIDOT Audits and management advisory services. Below is a detailed list of how the OIA continued to assist in the state's response to the pandemic.



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

OIA continued to assist DOH with the preparation of its quarterly FEMA applications. The OIA developed the methodology for calculating allocable payroll costs for DOH staff and has provided ongoing consulting for DOH and A&C staff regarding the compilation of FEMA-eligible costs.

Rhode Island National Guard (RING) Financial Leadership

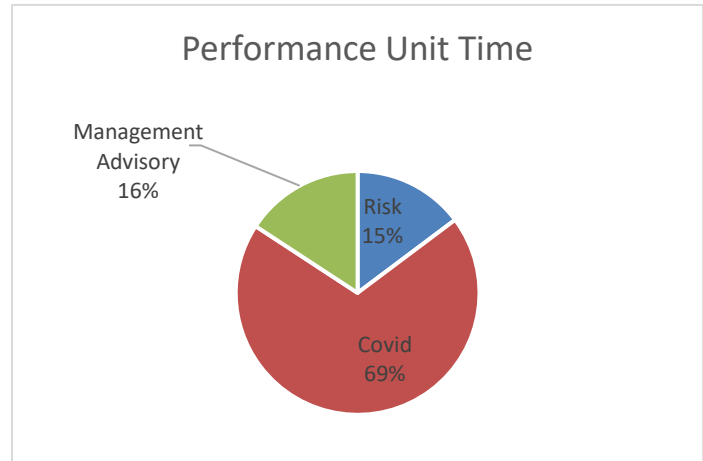
In FY2021 the Performance Unit Senior Internal Audit Manager, later promoted to Deputy Chief, was assigned to assist the National Guard as a part-time CFO. The National Guard requested assistance in this area due to a long-term leave of absence in this key financial position. This arrangement is documented in a memorandum of understanding between the Office of Management and Budget (OMB) and RING. This assignment continued into FY2022 and had an impact on the leadership of the Performance unit.

Department of Business Regulation

OIA's Senior Internal Audit Manager, later promoted to Deputy Chief, was assigned to assist the Department of Business Regulation's financial management efforts by acting as the interim CFO. This assignment coupled with the work at the Rhode Island National Guard occupied most of the Deputy Chief's time during the first half of FY2022. The combination of these two assignments had a significant effect on the audit hours available in the Performance Unit.

Performance Unit

The OIA Performance Unit completed statewide performance audits during the fiscal year of statewide compliance with CRF payroll charges and succession planning practices. These reports included recommendations to improve operations or to strengthen internal controls. Additionally, two audits are currently underway and will be carried into fiscal year 2023: statewide employee license compliance and a Performance and Compliance audit of Rhode Island Housing. We have also responded to agency requests providing examples of best practices and opinions regarding controls over processes and other management advisory services.



Statewide Succession Planning

The OIA performed a statewide assessment of succession planning and preparedness across all state agencies. The primary mechanism used in this audit was an executive survey which inquired about current succession planning practices, perceptions about the organizational importance of succession planning, and any obstacles to improvement. Upon release the OIA Chief and a representative from the Division of Human Resources were requested to present this report at a meeting of the Senate Rules, Government Ethics and Oversight Committee.

Coronavirus Relief Funds (CRF) Payroll Compliance

OIA dedicated a significant amount of the staff’s time to a comprehensive compliance review of state agencies compliance with the payroll accounting guidelines for the allocation of Coronavirus relief funds. The compliance review focused on allowability and documented support for personnel charges to CRF account.

Outstanding MCA Summary

Management Corrective Actions (CCAs) 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.

The COVID-19 pandemic has caused a radical shift in statewide operations from both an operational and risk-tolerance perspective. Management priorities have shifted drastically because of health and safety concerns, economic conditions, service delivery options, and customer preferences. In response to these changing conditions, the OIA has purged outstanding audit recommendations issued prior to July 1, 2020, to focus more directly upon relevant management concerns. On the following page is a table which shows the status of all outstanding recommendations since that time.

FISCAL YEAR 2022 AUDIT RESULTS

Outstanding Audit Recommendations	Issue Severity			Total
	Low	Medium	High	
Fiscal Year 2021	4	9	10	23
DOA Enterprise Payroll	1	2	9	12
Quasi- Rhode Island Convention Center Authority		3		3
Quasi - Rhode Island Public Transit Authority		1		1
Quasi- Rhode Island Turnpike & Bridge Authority	1			1
Quasi- Tobacco Settlement Financing Corporation		1	1	2
Workforce Stabilization Loan Program	2	2		4
Fiscal Year 2022		4		4
DOC Prescription Model Review		1		1
Succession Planning		3		3
Grand Total	4	13	10	27

Discussion of Outstanding Recommendations

- 1) DOA Enterprise Payroll – Recommendations consist of both systemic and operational changes to payroll processes. DOH HR is currently in process of updating processes and is working cooperatively with IT and A&C to replace the outdated payroll system.
- 2) RI Convention Center Authority – Outstanding findings include updated to policies and procedures, performance self-evaluation and improved board communication.
- 3) RI Public Transit Authority – Communication of Quasi-audit findings to the Board of Directors.
- 4) RI Turnpike and Bridge Authority – Outstanding recommendation to acquire IT control audit report (SOC 1).
- 5) Tobacco Settlement Financing Corporation – Recommendations relate to providing outstanding reports or considering legislation related to exemption from quasi-act requirements due to limited operations.
- 6) DOC Prescription Model Review – consider converting their pharmacy services and prescription purchase agreement to the Minnesota Multistate Contracting Alliance for Pharmacy infuse vendor (MMCAP).
- 7) Succession Planning – DOA Human Resources acknowledged the gap in entity-wide policies and plans to develop procedures and oversight processes. Their estimated completion date is early 2023.

Continuous / RIDOT Unit

Compliance Audits

The Continuous Audit Unit completed a comprehensive review of the Department of Corrections Prescription Model. This report includes a recommendation to improve operations and strengthen internal controls. An additional audit is currently underway and will be carried into fiscal year 2023; a review of the oversight provided by RIDOT for utility relocations. The purpose of this engagement is to review the level of oversight by RIDOT for utility relocations during construction projects.

Architectural and engineering firms engaged by RIDOT are required to submit an indirect cost rate submission to the continuous audit unit 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. The unit completed 57 indirect cost rate reviews of RIDOT architectural & engineering vendors during the fiscal year.

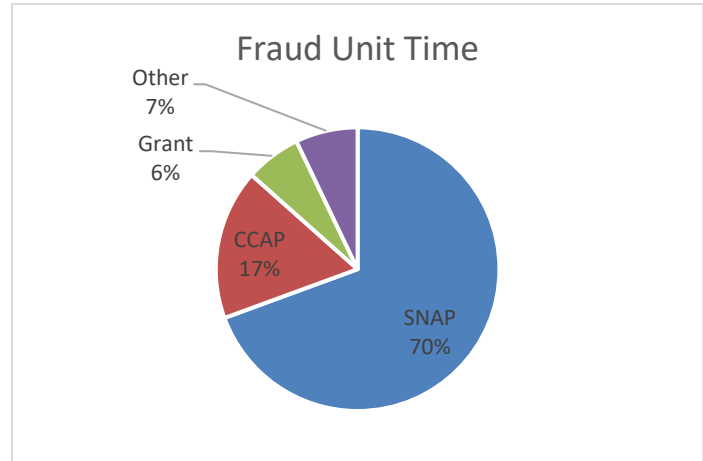
A policy and procedure manual was developed and reviewed with RIDOT for the implementation of an ICR Safe Harbor program. The Safe Harbor program establishes requirements for a firm to be granted a default indirect cost rate where one has not been calculated before. The OIA is researching resources that will be needed to institute this policy.

Department of Corrections Prescription Drug and Pharmacy Services

The purpose of the DOC prescriptions review engagement was to examine the purchasing model currently used by the Rhode Island Department of Corrections (DOC) to purchase prescription drugs and pharmacy services for inmates in the Rhode Island correctional facilities and determine if DOC can obtain cost savings through modification of their existing contract model. The OIA found that although the average inmate population decreased, management fees, courier charges, medication costs and oversight costs significantly increased from FYE 2016 to FYE 2020. The OIA recommended that DOC consider converting the pharmacy services and prescription purchase agreement to the Minnesota Multistate Contracting Alliance for Pharmacy infuse vendor (MMCAP), which would allow them to make purchases at wholesale prices, at an estimated cost avoidance of \$450k.

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 two grants 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 civilly/administratively. In FY 2022, the fraud unit proceeded with 134 cases: 47 criminally and 87 civilly.

Office of Internal Audit						
Investigations Division						
Cases Prosecuted FY 2022						
	SNAP		CCAP		Total	
Disposition	# Of Cases	Amount	# Of Cases	Amount	# Of Cases	Amount
Pending	29	\$ 372,652	3	\$ 90,921	32	\$ 463,573
Disposed/ Pled NOLLO	8	\$ 80,025	2	\$ 259,838	9	\$ 339,479
Dismissed w/ Restitution	2	\$ 15,950	0	\$ -	2	\$ 15,950
Diversion	3	\$ 4,451	1	\$ 16,929	4	\$ 21,380
Total Criminal	41	\$ 472,694	6	\$ 367,688	47	\$ 840,382
Waivers	32	\$ 84,769	0	\$ -	32	\$ 84,769
Administrative Hearing	55	\$ 66,595	0	\$ -	55	\$ 66,595
Total Civil	87	\$ 151,364	0	\$ -	87	\$ 151,364
Grand Total	128	\$ 624,058	6	\$ 367,688	134	\$ 991,746

Significant Investigations & Activities

Data Acquisition and Lead Scoring

The Fraud Unit worked with the Data Analysts to develop a risk-based dashboard to generate leads. The programming logic was developed to incorporate many factors such as unreported income and EBT card utilization in multiple states. Those individuals with the highest scores are investigated and a case developed by the investigators. By utilizing data analytics, more accurate leads will be pursued, and resources allocated to cases in which cost avoidance and recovery is more likely.

Supplemental Nutrition Assistance Program (SNAP) Grant Awards

Over the past two years, the Fraud Unit received two separate grant awards from the USDA to implement the SNAP Fraud Implementation Framework. Significant progress was made towards accomplishing the objectives of the 2020 grant, which was awarded in the amount of \$440,000. The objective is to develop a training and educational program for DHS supervisors (“train the trainer”) to better identify fraud indicators on the front end. In addition, the Senior Trainer also compiled a training manual that will be part of the Office of Internal Audits. This grant began on October 1, 2020, and will end September 30, 2022.

The Fraud Unit also begun work towards accomplishing the objectives of the 2021 grant, which was awarded in the amount of \$530,000. The objective of the 2021 grant is to improve the investigations and dispositions of the Fraud Unit’s cases. The Fraud Unit worked with DOA legal counsel to hire and retain legal counsel to help successfully achieve the objectives of the grant. This grant began on October 1, 2021, and will end September 30, 2023.

Child Care Assistance Program (CCAP)

The Fraud Unit worked with DHS and the Office of Regulatory Reform to ensure penalties for fraud committed within CCAP were incorporated into the regulations as of November 2021. Due to these efforts, recipients and providers found to have committed fraud will be subject to disqualification penalties, similar to SNAP.

The Fraud unit continues to investigate childcare provider fraud as well as recipient fraud. Two significant ongoing investigations involving CCAP childcare providers are currently underway. Both cases involve unreported absences, billing for non-attending children, and unreported enrollment status changes.

Court Decision Reached

An investigation commenced upon interviewing a client who stated her son had not attended a CCAP childcare provider since the child began kindergarten on 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. The 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 for the period August 29, 2016, through October 31, 2019. On October 25, 2021, the owner pled Nolo Contendere to obtaining money under false pretenses with

FISCAL YEAR 2022 AUDIT RESULTS

intent to defraud CCAP and filing documents with DHS which contained known and substantial falsehoods. The owner took a 5-year deferred sentence, paid \$209,545 in restitution, and signed the revocation of the childcare license form.

Medical Benefit Programs

In response to the Coronavirus Pandemic, processes for the termination of medical benefits due to changes in eligibility have been severely limited. During the initial phase of the pandemic, monthly data meetings between OIA, EOHHS and DHS were suspended to minimize any interference with EOHHS and DHS's pandemic response to this critical public health emergency. OIA Data Analysts worked with EOHHS on a limited set of allowed terminations and provided information as needed.