

OFFICE OF MANAGEMENT AND BUDGET

**DEPARTMENT OF
ADMINISTRATION**

**ANNUAL REPORT OF
INTERNAL AUDIT ACTIVITIES
Fiscal Year 2023**

Message from the Chief

On behalf of the Office of Internal Audit (OIA), I am pleased to present this annual report of Internal Audit Activities for Fiscal Year 2023 (FY 2023). The purpose of this 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. 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 Year in Review

FY 2023 was a challenging year for the Office with significant staff turnover, emerging threats in the benefit programs administration and significant changes needed to be made in the evaluation of Indirect Cost Rate submissions. OIA has met these challenges by reprioritizing work, developing new procedures, and leveraging available data and technology.

The Performance Audit group was particularly affected by the staff turnover losing the Deputy Chief, Audit Manager, and a key Senior Internal Auditor during the second quarter. Management of the group was assumed by the Chief and there was an effort to rebuild the section. As of today, the unit has added an Internal Audit Manager and a Senior Internal Auditor and is on the path to returning to its expected level of productivity.

The Fraud Unit continues to have a stable management structure but experienced some turnover at the Fraud Auditor position. Robust training programs and a dedicated management staff willing to do whatever needs to be done helped this unit maintain an acceptable level of productivity.

The Continuous/RIDOT Unit lost its senior leader, but a Senior Auditor was in position to assume management of the group and was promoted to the Internal Audit Manager position. This unit continued its success in providing audit services to its primary customer, the Rhode Island Department of Transportation.

Looking Ahead

The Office continues to move towards greater integration with the other divisions of OMB. During FY 2023 OMB put emphasis on performance management of the State's departments. This activity blends well with the activities of the Performance Audit Unit. The Office is looking to add a senior manager to the Performance Unit who will be able to drive performance and lead the effort to integrate more effectively with the other units of OMB.

The Fraud Unit will continue its work in investigating human service-related fraud while expanding its cooperation with external investigatory agencies. The RIDOT Unit continues performing the mandated indirect cost rate reviews supplemented with reviews of RIDOT operations.

OIA is in the process of replacing its various audit documentation and case tracking systems with applications developed using Microsoft Power Apps. The Fraud Unit's case tracking system was first in line starting in FY 2023. A project time tracking system was also added in early FY 2024. Upon completion of the fraud system, we will begin the process of replacing the ICR documentation system.

Michael Sprague, CIA Chief

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FY 2023

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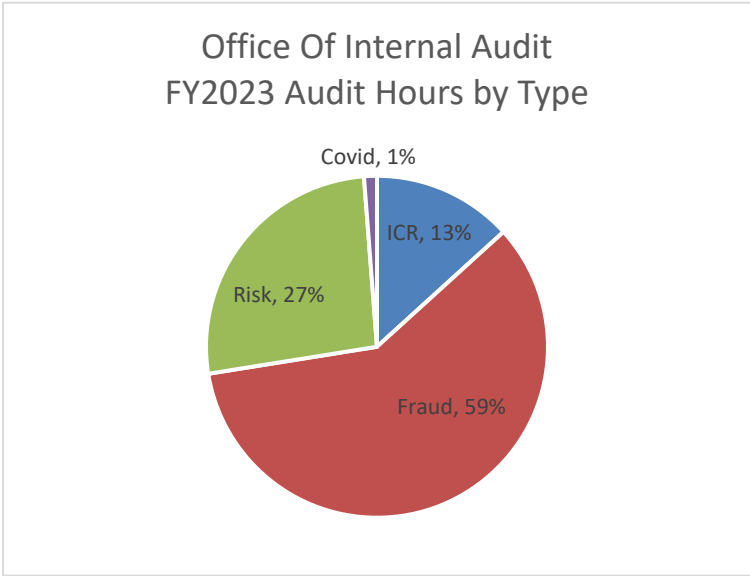
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Fiscal Year 2023 Audit Results Pandemic Response Efforts

For Fiscal Year 2023, the involvement of OIA personnel to assist in the pandemic recovery effort came to an end. OIA continued to reevaluate risk based on the challenges presented by the pandemic and dedicated a portion of the staff's efforts to a review of Quasi-state agencies' programs which were largely affected by the pandemic. OIA will continue to consider pandemic funding increases as a risk factor when determining the audit schedule.



Management Consulting Engagements

A portion of OIA's staff time was dedicated to various management consulting engagements. These engagements were in response to managements' requests or executive mandates and did not rise to the level of an audit. The results of these activities were communicated to department leadership as appropriate.

Employee Licensing Review

A prior administration Governor requested more frequent reviews of licensure requirements that exist for various classes of state employees. This review is based on data comparisons which generated possible discrepancies. These discrepancies have been subsequently referred to Human Resources for further evaluation.

DCAMM Internal Service Fund

The Division of Asset Management and Maintenance (DCAMM) requested the Office's assistance in reconciling a discrepancy in the accounting of their Internal Service Fund. OIA examined the fund balances and transactions for accuracy and completeness as well as DCAMM's procedures for monitoring fund balances and adjusting reimbursement rates. OIA provided DCAMM management with procedures for better control and a method to correct the Internal Service Fund's reconciliation report.

Public Safety Payroll

Department of Administration Leadership requested OIA to assist the Office of Human Resources in evaluating payroll discrepancies at the Department of Public Safety (DPS). OIA reviewed DPS payroll records and time reporting procedures to determine accuracy and internal controls. OIA provided DOA and Human Resources management

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with recommended actions to improve procedures and correct improper recordings of some transactions.

Performance Unit

The OIA Performance Unit completed audits of Rhode Island Housing's Quasi-Public compliance and various COVID programs including US Treasury Do Not Pay compliance, State Fleet vendor agency price agreement compliance, and Department of Corrections Probation and Parole's performance management efforts. These reports included recommendations to improve operations and to strengthen internal controls. Two of the following audits are currently underway and will be carried into fiscal year 2024:

- Statewide Request for Proposal Scoring Process
- Department of Human Services' Early Educator Pandemic Retention Bonus Program

In accordance with Rhode Island General Law § 35-14, OIA will continue to manage the Financial Integrity and Accountability Act Survey to collect and summarize responses from state agencies and quasi-public agencies. This survey is considered a management self-assessment of internal controls and is used as a basis for evaluating risk and determining the audit schedule.

Completed Audits

Rhode Island Housing Rent Relief Programs

An audit was conducted of the Rhode Island Housing and Mortgage Finance Corporation's compliance with the Quasi-Public Corporations Accountability and the Transparency Act and rent relief programs administered by the agency. The purpose of this engagement was to evaluate compliance with the Quasi-Public Accountability and Transparency Act, to determine if rent relief programs are administered efficiently and effectively in accordance with applicable laws, rules, and regulations and if adequate controls are in place to ensure safeguarding of assets and accurate financial reporting. The scope of this audit includes:

- Quasi-Public Corporations Accountability & Transparency Act for the period of October 2019 to May 2022
- Home Safe Program awards disbursed for the period of March 25, 2020, to December 31, 2021
- Housing Help RI Program awards disbursed for the period of March 1, 2020, to March 31, 2021
- Rent Relief RI Program awards disbursed for the period of May 1, 2021, to March 1, 2022

OIA made five recommendations for improvement to operations and compliance.

US Treasury Do Not Pay Compliance

A continuous monitoring audit was conducted of the Department of Administration (DOA) to assess the validity of the findings in the Do Not Pay (DNP) match report to verify that the State of Rhode Island did not disburse any funds to vendors that were deemed ineligible. Through comprehensive examination, OIA assessed the accuracy

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and effectiveness of the DNP match report to prevent payment to ineligible vendors. The scope of the audit includes:

- Federal funds paid by the State of Rhode Island to vendors between December 2021 and April 2022.

OIA presented two recommendations to enhance operational efficiency and ensure compliance.

Department of Corrections (DOC) Probation and Parole's Performance Management Efforts

OIA evaluated the business process efficiency and effectiveness and assessed the collection and use of data by management to calculate performance metrics and execute evidence-based practices (EBP). Management did not have the ability to open and analyze the data because the agency does not have the type of server needed to access the database. As a result, DOC has not had the ability to analyze certain performance metrics since the implementation of their new case management system in November 2021. In addition, DOC has not adopted EBP aimed to reduce recidivism. OIA made six recommendations for improvement to operations and compliance.

Financial Integrity and Accountability Act Survey (FIAA)

OIA administered the annual FIAA survey collecting and summarizing responses from state agencies and quasi-public agencies for fiscal year 2022. A summary of the survey results was issued on the OIA website.

Audits in the Final Reporting Stage

Quasi-Public Agencies Audit: RI Commerce and Subsidiaries

The General Assembly passed the Quasi-Public Transparency Act which requires OIA to conduct a performance audit of each of the identified Quasi-public agencies once every five years. OIA reviewed the following entities:

- Rhode Island Commerce
- Rhode Island Recreational Building Authority
- Rhode Island Industrial Facilities Corporation
- Small Business Loan Fund Corporation

The scope of this audit was to evaluate compliance with terms of the Quasi-Accountability and Transparency Act for the five-year period, and to evaluate compliance for the RI Commerce and its subsidiaries.

State Fleet Vendor Agency Price Agreement Compliance

OIA conducted a vendor invoice audit related to routine maintenance on Rhode Island State Police (RISP) cruisers. RISP is required to review each invoice to detect false, misleading, or inaccurate information before authorizing it for payment. When a vehicle needs repairs and preventative maintenance, RISP must submit a work order to State Fleet Operations. The Agency Price Agreement (APA) requires the work order number and listing of items

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approved to be communicated to the vendor along with the vehicle to perform the work. OIA identified systemic billing issues, control weaknesses in the approval process, and noncompliance with the State Police Agency Purchase Agreement.

Ongoing Audits

Statewide Request for Proposal (RFP) Scoring Process

The Department of Administration Division of Purchasing is responsible for reviewing, approving, and denying RFPs for new acquisitions. As of February 2022, solicitations and competitive biddings transitioned to an online platform called Ocean State Procurement (OSP) making the process paperless and efficient for vendors and state agencies. The review process consists of evaluation committees selected within each agency based on experience and knowledge. The evaluation committees are to determine a score for each RFP based on technicality and cost, and the vendors with the highest scores are selected. Subsequently, the State Purchasing Agent or Deputy Purchasing Agent reviews the RFP and approve or deny the vendor purchase agreement. OIA staff's time will be dedicated to assessing and ensuring the scoring process is a fair and equitable evaluation process.

Department of Human Services Early Educator Pandemic Retention Bonus Program

The Department of Human Services (DHS) provides support such as benefits and services to communities and families in Rhode Island. As such, DHS Office of Child Care provides a program to administer bonus awards to direct care staff employed at DHS licensed childcare providers amidst the ongoing COVID-19 pandemic. The funds were appropriated by the Governor and General Assembly in 2021, and the program commenced in Spring 2022. Early educators are eligible to receive \$750 for each eligibility period. Applications are submitted through a third-party case management system which then gets reported to DHS to review, approve, and deny applications on a weekly basis. OIA staff will perform a compliance review and ensure proper controls are in place to avoid the risk of improper payments.

Financial Integrity and Accountability Act Survey (FIAA)

OIA will administer the annual FIAA survey to collect and summarize responses from state agencies and quasi-public agencies for FY 2023 activities. This survey is considered a management self-assessment of internal controls and is used as a basis for evaluating risk as well as determining the audit schedule.

Outstanding Management Corrective Actions Summary

Management Corrective Actions are classified initially as open and are moved to a closed status upon the validation by auditors that the corrective actions have been completed by management in accordance with OIA's procedures,

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the associated risk has been adequately mitigated and sustainable improvement has been achieved, or management has documented the acceptance of risk. Below is a table which shows the status of all outstanding recommendations.

Outstanding Audit Recommendations	Issue Severity			Total
	Low	Medium	High	
Fiscal Year 2021				
DOA Enterprise Payroll	1	1	9	11
Quasi - Rhode Island Convention Center Authority		1		1
Fiscal Year 2022				
Succession Planning		3		3
Fiscal Year 2023				
DOT Oversight of Utility Relocations		1		1
Fiscal Year 2024				
DOT Change Order Management Process	3	7		10
DOC Probation and Parole System	3	3		6
Grand Total	7	16	9	32

Discussion of Outstanding Recommendations

1. Department of Administration (DOA) Enterprise Payroll – Recommendations consist of both systemic and operational changes to payroll processes. DOA Office of Human Resources is currently in process of updating processes while working cooperatively with DoIT and Accounts and Control to replace the outdated payroll system with Enterprise Resource Planning (ERP) software system which is anticipated to go live in FY 2025.
2. RI Convention Center Authority – Outstanding recommendation pertains to the performance of self-evaluation which will be completed in FY 2024.
3. Succession Planning – DOA Office of Human Resources acknowledged the gap in entity-wide policies and plans to develop procedures and oversight processes. Their estimated completion date was early 2023, but it has not yet been implemented due to new executives overseeing HR, as well as the preparation and implementation of the new ERP software system.
4. RI DOT Oversight Over Utility Relocations – Recommendation consists of the level of oversight over utility relocations during construction projects. The completion date was April 2023, but it has not yet been implemented.
5. RI DOT Construction Change Order – Recommendations relate to the construction contract change order management process. Their estimated completion date is December 31, 2023.
6. RI DOC eSupervision – Outstanding recommendations pertain to the collection and use of data by management to calculate performance metrics. Their estimated completion dates are December 31,

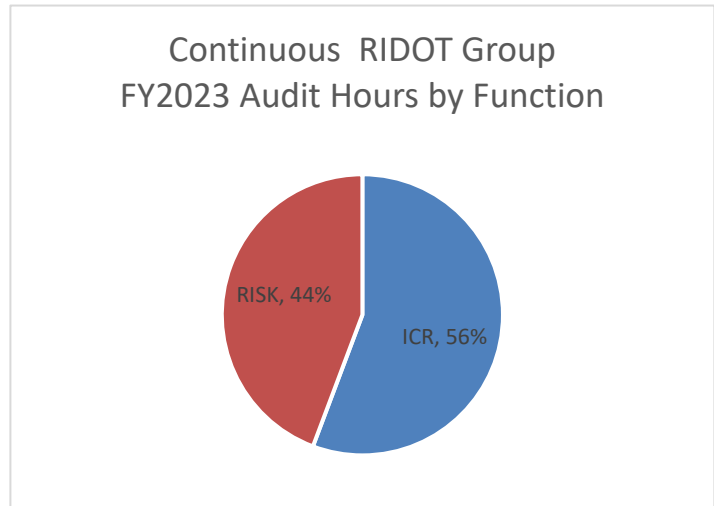
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2023, and June 30, 2024.

Continuous/ RIDOT Unit

Indirect Cost Rate Reviews

Architectural and engineering firms engaged by RIDOT are required to submit indirect cost rate (ICR) schedules along with supporting documentation for each fiscal year to the OIA Continuous Audit Unit for review and approval. The unit completed and issued 72 architectural & engineering consultant indirect cost rate reviews during the fiscal year. The issued rates are then used for ICR invoice adjustments and as the basis of the ICR reimbursements until the following year's ICR is reviewed.



In Fiscal Year 2021, the unit had to make significant adjustments to the ICR review process due to the pandemic-related Paycheck Protection Program (PPP) forgiven loans and is still working to account for credits that are needed to the ICRs to reflect the necessary recoveries. There were seven ICRs reviewed during Fiscal Year 2023 that required additional work due to PPP loan forgiveness.

In December of 2022, the Indirect Cost Rate policy statement was updated and issued to the RIDOT consultants to reflect the current submission requirements and ICR review process. The implementation of the ICR Safe Harbor program policy and procedures manual developed and reviewed with RIDOT is still on hold. The Safe Harbor program establishes requirements for a firm to be granted a default indirect cost rate where one has not been calculated before.

RIDOT Audits

The Continuous Audit Unit completed an audit of the oversight of utility relocations performed by the Rhode Island Department of Transportation. This report includes recommendations to improve operations and strengthen internal controls. An additional audit was in the final stages of completion and was carried into the beginning of Fiscal Year 2024; a review of the design engineering and construction contract change order management processes performed by RIDOT.

Department of Transportation Utility Relocations Oversight

The purpose of the DOT utility relocations oversight review engagement was to determine if RIDOT has developed

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and implemented policies, procedures, and processes which provide clear guidance on the preparation of utility agreements, communication of utility relocation requirements to contractors, and the capture of utility related change orders. Also, the audit aimed to determine if the oversight was sufficient to comply with applicable laws, rules, regulations, and align with best practices.

The OIA found instances of nonconformance with internal policies and procedures, weak internal controls and noncompliance with state purchasing rules and federal regulations. The OIA recommended that RIDOT revise conflicting procedures, ensure that utility contract purchase orders are completed properly with required support and approved prior to work being performed, adhere to established procedures for approval of utility relocation invoices and properly monitor utility agreement work being completed.

Department of Transportation Change Order Process

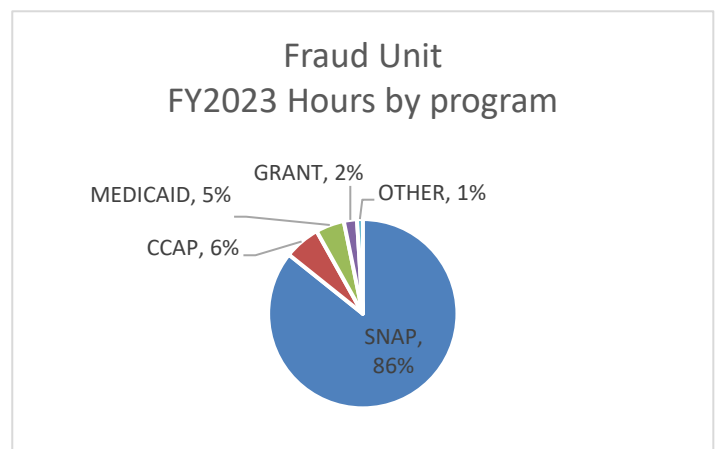
The purpose of the change order management review engagement was to examine the design engineering and construction contract change order processes used by RIDOT and determine if the control processes in place provide reasonable assurance that change orders are authorized, necessary, and appropriately priced in accordance with applicable federal and state regulations and contractual requirements.

The OIA found insufficient and conflicting change order policies and procedures, instances of change orders missing required approval signatures and backup documentation, instances where incorrect data was entered in the information systems and inconsistent practices for change order documentation. The OIA recommended that RIDOT update policies and procedures to provide sufficient guidance and reflect current practices in place and ensure that contract change orders are adequately documented. Additionally, recommendations for the data management systems used to track change orders included reconciling information systems periodically and implementing input controls in the databases.

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. In addition to fraud investigations, the unit is the recipient of two grants from the USDA for the enhancement of its implementation of the USDA's SNAP Fraud Framework.

Data analytics within the OIA has been important in



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identifying a new fraud scheme known as EBT card skimming as it pertains to the Supplemental Nutritional Assistance Program (SNAP). OIA continues to work collaboratively with the USDA Office of Inspector General and DHS to combat this fraud. Through data analytics OIA is able to identify clients who have been skimmed or are at risk of being skimmed. This collaborative effort is to ensure the integrity of the program is upheld and the clients who have been victimized are made whole.

Case Resolution

The Fraud Unit investigates and compiles evidence to proceed with cases criminally or administratively. The Fraud Unit management decides what track the case will take. The egregiousness of the offenses and the overpayment amount determines the track the case will take.

Office of Internal Audit								
Investigations Division								
Cases Prosecuted FY 2023								
	SNAP		CCAP		MEDICAL		TOTAL	
Disposition	# Of Cases	Amount	# Of Cases	Amount	# Of Cases	Amount	# Of Cases	Amount
Pending	18	\$301,001	1	\$22,125	0	\$0	19	\$323,126
Disposed/ Pled NOLO	8	\$63,745	1	\$422,000	0	\$0	9	\$485,745
Dismissed w/ Restitution	1	\$1,000	0	0	0	\$0	1	\$1,000
Diversion	0	\$0	2	\$25,484	1	\$11,224	3	\$36,708
Total Criminal	27	\$365,746	6	\$469,609	1	\$11,224	34	\$846,579
Waivers	60	\$148,359	0	0	0	\$0	60	\$148,359
Administrative Hearing	54	\$115,050	0	0	0	\$0	54	\$115,050
Total Civil	114	\$263,409	0	0	0	\$0	114	\$263,409
Grand Total	141	\$629,155	6	\$469,609	1	\$11,224	148	\$1,109,988

Significant Investigations & Activities

Child Care Assistance Program

The Fraud Unit continues to investigate childcare provider fraud as well as recipient fraud. Two significant investigations involving CCAP Child Care Providers were investigated. The first investigation has been fully adjudicated and the results are described later in this report. The second CCAP Child Care Provider case is ongoing. Both cases involved unreported absences, billing for non-attending children, and unreported enrollment status changes.

Supplemental Nutrition Assistance Program (SNAP) Grant Awards

Over the past three years, the Fraud Unit received two separate grant awards from the U.S. Department of Agriculture (USDA) to enhance program integrity through enhanced implementation of the SNAP Fraud

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Framework. Significant progress was made towards accomplishing the objectives of the 2020 grant, which was awarded in the amount of \$440,000. One of the objectives was to develop a training and educational program for DHS Eligibility Technicians (ETs), to identify fraud indicators on the front end. That objective was met, and the training has been implemented into the Learning Management System. As of July 25, 2023, a total of 333 staff members were enrolled including ETs and supervisors; 238 have not started the course, 60 are in progress and 35 have completed it.

The Fraud Unit also continued working towards the objectives of the 2021 grant, which was awarded in the amount of \$530,000. The objectives of the 2021 grant were to advance OIA's knowledge regarding relevant evidence, SNAP regulations, procedural processes, as it pertains to civil hearings, and a more comprehensive criminal narrative. The grant funded legal counsel reviews of all the civil and criminal packets including relevant evidence, substance, and exhibits. Legal counsel attends all hearings with the auditor. An additional objective is to educate law enforcement regarding the SNAP Program and the fraud schemes surrounding it. This has been approved by the Director of Continuing Education, RISP. This grant began on October 1, 2021, and will end September 30, 2023.

Skimming and Trafficking

The Fraud Unit has concentrated investigator resources to pursue EBT card trafficking cases as we have seen a tremendous uptick regarding food purchases online due to new rules that were implemented during the COVID-19 Pandemic. OIA, RI State Police and the USDA's Food and Nutrition Service (FNS), Special Investigations Unit have worked closely toward providing enough evidence to obtain a search warrant on a pending case. Data analytics within the OIA has been instrumental in identifying a new fraud scheme known as EBT card skimming as referenced above. USDA's Office of Inspector General (OIG) has identified this scheme nationwide. OIA continues to work collaboratively with OIG, FNS, DHS and Rhode Island state vendor FIS to combat this fraud. Through data analytics OIA is able to identify clients who have been skimmed or are at risk of being skimmed.

Controls have been implemented through the EBT vendor after the analysis of the data regarding PIN changes and out-of-state spending, to limit the amount of dollars being stolen from beneficiaries. There are many stakeholders invested in combating this fraud as well as weekly meetings with DHS to identify or make any additional changes as needed.

Medical Benefit Program

As a result of new Federal Regulations implemented April 1st, the renewal process for Medicaid Eligibility will resume following the end of the pandemic. Beneficiaries now have a responsibility to report changes to the household and/or income and abide by the eligibility requirements of Medicaid. As this process unfolds and the utilization of data analytics is ongoing, the Fraud Unit will be able to identify fraud indicators of beneficiaries who

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are not reporting the proper income or household composition to continue receiving Medicaid benefits fraudulently.

Court Decision Reached

This investigation commenced upon a referral from the Rhode Island Department of Human Services Office of Childcare regarding enrollment and billing discrepancies stating that a child was being billed simultaneously in two centers. OIA Fraud Unit received confirmation that the child was not attending said daycare. An investigation was conducted and over 6,000 documents were reviewed by the team. Many employee and parent interviews were conducted as well as an interview with the owner of the facility who gave a full admission as to the fraud being committed. OIA Fraud 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 \$422,000 he received a three-year deferred sentence and paid the balance in full at the time of sentencing, June 7, 2023.