

OFFICE OF INTERNAL AUDIT

**OFFICE OF MANAGEMENT AND BUDGET
DEPARTMENT OF ADMINISTRATION**

**Fiscal Year 2024
Annual Report
Internal Audit Activities**

Introduction

The Office of Internal Audit (OIA) performs the auditing function for the Executive Branch of State Government and falls under the Department of Administration. OIA reports functionally to the Internal Audit Advisory Group (Group) and administratively to the Director of the Office of Management and Budget (OMB). OIA provides the Governor and the Director of OMB with an independent appraisal and evaluation of the effectiveness of financial and operational controls through objective analyses, evaluations, and recommendations on operations, systems, and contracted services of state government.

The purpose of this report is to provide an update to the Audit Advisory Group on the activities of the Office of Internal Audit during Fiscal Year 2024 (FY 2024) and to demonstrate that the State internal audit function is operating as intended. OIA performs the auditing function for the executive branch of Rhode Island state government, provides an independent appraisal and evaluation of the effectiveness of financial and operational controls through objective analyses and evaluations, and makes recommendations for improvement of operations and systems. OIA enhances and protects organizational value by providing risk-based and objective assurance, advice, and insight with a focus on audits that can lead to measurable operational improvements. Audits are conducted by the Performance and Continuous Audit teams. The Continuous Audit team is solely focused on the Rhode Island Department of Transportation (RIDOT). The Performance Audit team focuses on all other executive branch agencies as well as quasi-state agencies.

- The Performance Audit team conducted 4 audits in FY 2024, making 20 recommendations for improvements to operations.
- The Continuous Audit team conducted 84 indirect cost rate reviews and 2 RIDOT performance audits, making 18 recommendations for improvements to operations.

OIA also has a designated Fraud Detection & Prevention (FDP) unit which investigates benefit program fraud, as well as other allegations involving fraud, waste and abuse of state funds and resources.

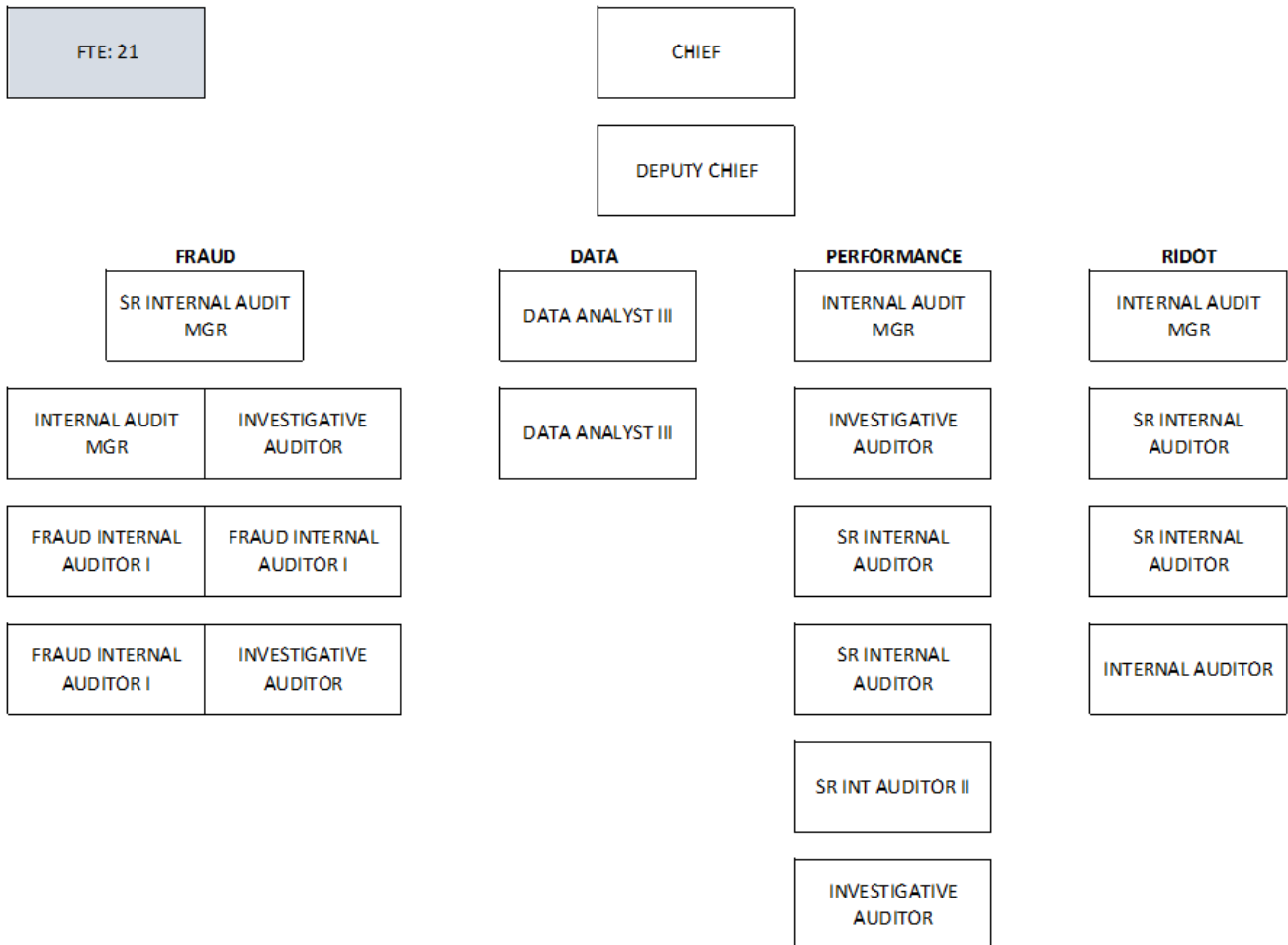
- At the close of FY24, FDP has 90 cases worth \$1.6m pending in the criminal justice system.
- 89 cases worth \$307,520 have been sent for civil adjudication.
- OIA identified 649 skimming incidents and prevented 1,297 households from losing benefits based on identified skimming patterns.

Completed audit reports (including additional information on the FDP unit) can be found on our website at <http://omb.ri.gov/internal-audit/>.

Office of Internal Audit Structure

The Office of Internal Audit includes a headcount of 21 full-time employees. At the close of FY 2024, OIA had 19 active employees, with two vacancies being recruited to fill. OIA is structured as follows:

- Leadership (2)
- Performance Audits (6)
- Continuous Audits (4)
- Fraud Investigation (7)
- Data Analytics (2)



Fiscal Year 2024 Audit Activities

I. Performance Unit

A. Issued Audits

Quasi-Public Agencies Audit: RI Commerce and Subsidiaries

In accordance with the Quasi-Public Corporations Accountability and Transparency Act ("the Act"), OIA conducts a performance audit of each of the identified quasi-public agencies once every five years. In FY 2024, OIA conducted an audit of the Rhode Island Commerce Corporation, including the following subcomponents:

- 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 Act. During the engagement review, OIA identified:

- There was insufficient evidence of using the Request for Proposals (RFP) process for selecting bond counsel in private placement bonds. This suggests potential shortcomings in the procurement process that may affect the integrity and transparency of contractor selection.

Although RIGL § 37-2-70 permits procuring bond counsel without an RFP, OIA recommended the utilization of the RFP process when procuring bond counsel to ensure fairness, competitive pricing and transparency in the selection process. OIA issued this report on April 4, 2024.

Financial Integrity and Accountability Act Survey (FIAA)

OIA administered the annual FIAA survey, collecting and summarizing responses from state agencies and quasi-public agencies. This survey is considered a management self-assessment of internal control and is used as a basis for evaluating risk and determining the audit schedule. OIA received a 98% response rate to this year's survey. OIA issued the summary report on May 3, 2024.

Quasi-Public Agencies Audit: Narragansett Bay Commission

The scope of this audit was to evaluate compliance with terms of the Act and to evaluate IT controls. During the engagement review, OIA identified that the Narragansett Bay Commission (NBC) strategic plan was outdated.

Although NBC has allocated funds for developing a new strategic plan in FY 2025, OIA recommended that NBC establish and implement a strategic planning process to ensure that an updated strategic plan is always in place. Additionally, the results from the IT security audit were communicated to and acknowledged by NBC's management. OIA issued the report on May 21, 2024.

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 provided a program to administer bonus awards to direct care staff employed at DHS-licensed childcare providers during the COVID-19 pandemic. The funds were appropriated by the General Assembly in 2021 using State Fiscal Recovery Funds, and the program commenced in Spring 2022. Early educators were eligible to receive \$750 for each eligibility

period. Applications were submitted through a third-party case management system which then were reported to DHS to review, approve, /or deny. During the engagement review, OIA found:

- The online application system did not mandate the completion of all fields, resulting in incomplete applications. This raised concerns about the verification process and fund allocation integrity. Discrepancies were found between reported employment statuses on applications and data from state wage records and other sources. There were 88 identified instances where reported employment did not align with external records.

OIA recommended DHS request additional documentation to verify employment status, and institute controls to prevent submission of incomplete applications. Additionally, OIA recommended DHS conduct a thorough review of applications containing discrepancies to verify employment during the application period. If any applications were to be found ineligible, DHS is to discuss reimbursement options with RI Pandemic Recovery Office. The audit report was issued on June 24, 2024.

B. Ongoing Audits

Fleet Fuel Card Program

OIA performed an audit of the State Fleet Fuel Card Program, which is administered by Department of Administration's Division of Capital Asset Management and Maintenance. The audit set out to assess the effectiveness of existing preventative and detection controls in the course of state agencies' usage of fleet fuel and maintenance cards. The card serves as a tool to purchase fuel and cover maintenance expenses, offering a streamlined process to manage fuel and maintenance transactions while providing insights into the overall financial aspects of fleet management. Key areas reviewed by OIA regarding the Fleet Fuel Card were:

- Policy deficiencies impacting compliance and controls
- Agencies who were non-compliant to the Fleet Fuel Card Program Policy

OIA will issue the Fleet Fuel Card Program audit in early FY 2025. Results to be reported in Q1 FY 2025 report.

Statewide Request for Proposal (RFP) Scoring Process

The Department of Administration's Division of Purchasing is responsible for review of RFPs for acquisitions of most goods and services. Effective 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 approves or denies the vendor purchase agreement. OIA reviewed a sample of RFPs for consistency and accuracy in the scoring and review process.

Administration of User Access Rights

The administration of user access rights pertains to granting state IT system users only the essential levels of access and permissions required to fulfill their job responsibilities. This includes determining who has access to what resources, such as networks, databases, applications or files, and to what extent

users can interact with those resources. The scope is to review Department of Human Services RI Bridges, Department of Labor and Training Unemployment Insurance and Temporary Disability Insurance.

RI Interactive's Payment Process

RI Interactive is a subsidiary of Tyler Technology. They administer digital solutions to promote business growth for the State of Rhode Island. One of those solutions include the processing of credit card and electronic payments on behalf of the state and municipalities. OIA is reviewing the payment processes in place at selected agencies to ensure fees charged are reasonable and align with industry standards, with the aim of optimizing cost-effectiveness and transparency in payment transactions.

Quasi-Public Agencies

RIGL § 42-155-7 requires OIA to conduct an audit of each quasi-public corporation at least once every five years. OIA submitted a request for proposals via Master Price Agreement (MPA) 503 on March 18, 2024, for vendors to conduct a performance audit on seven quasi-agencies prior to the end of calendar year 2024. A vendor has been selected to conduct these audits, which will begin in Q1, FY 2025.

The seven quasi-agencies included in the RFP were:

- Rhode Island Infrastructure Bank
- I-195 Redevelopment Bank
- Capitol Center Commission
- Rhode Island Student Loan Authority
- Rhode Island Health and Educational Building Authority
- Quonset Development Corporation
- Rhode Island Resource Recovery Corporation

C. Management Consulting Engagements

A portion of OIA staff's time was dedicated to management consulting engagements. These engagements were in response to management requests and did not rise to the level of an audit. The results of these activities were communicated to department leadership as appropriate. OIA conducted management consulting engagements for State Fleet Operations and EOHHS Medicaid rate increase audit framework.

State Fleet Operations

At the request of the Director of the Department of Administration, OIA conducted a limited scope review of State Fleet Operations (SFO) and evaluated compliance with existing controls on the usage of fleet fuel and maintenance cards, the surplus vehicle distribution process, and the disclosure of vehicle defects in auction postings. The review did not identify any significant SFO compliance issues with existing controls, and OIA does not recommend an audit of SFO-controlled systems at this time. The review did, however, suggest the need for an audit to assess the effectiveness of existing controls around the state agencies' usage of fleet fuel and maintenance cards. As previously noted, OIA undertook this audit, with results to be reported Q1 FY 2025.

Medicaid Rate Increase Audit Framework

At the request of the Executive Office of Health and Human Services (EOHHS), OIA provided recommendations for an audit framework on the rates of payment to nursing facilities regarding the Nursing Home Staffing & Quality Care Act Minimum Staffing Statute. After conducting a preliminary analysis, OIA determined multiple areas where improvements can be made to enhance the auditability of

the rules and regulations pertaining to this statute. While the EOHHS Nursing Home Minimum Staffing statutory language is unambiguous in its purpose, there exists significant uncertainty regarding how a party/provider can effectively ensure compliance. OIA recommended to implement modifications to address these concerns and promote greater clarity and accountability in the regulatory framework surrounding this statute.

D. Outstanding Management Corrective Actions Summary

Management Corrective Actions are classified initially as open and are moved to closed status after auditors have validated that the agreed upon corrective actions have been completed by management, that the associated risk has been adequately mitigated and sustainable improvement has been achieved, or that management has documented the acceptance of risk. The following table shows the status of all outstanding recommendations.

Outstanding Audit Recommendations	Issue Severity			Total
	Low	Medium	High	
Fiscal Year 2021				
DOA Enterprise Payroll			5	5
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				
DOC Probation and Parole System		1	1	2
DOT Pavement Preservation Program	2	4		6
Quasi - Narragansett Bay Commission		1		1
Total	2	11	6	19

Discussion of Outstanding Recommendations

Department of Administration (DOA) Enterprise Payroll – Recommendations consist of both systemic and operational changes to payroll processes. The DOA Division of Human Resources is currently updating processes while working cooperatively with the Division of Enterprise Technology, Strategy and Services (ETSS) and Accounts and Control (A&C) to replace the outdated payroll system with the Enterprise Resource Planning (ERP) software system, which is anticipated to go live in FY 2025.

RI Convention Center Authority – The outstanding recommendation pertains to the corporation’s self-evaluation, which, in accordance with RIGL § 42-155-4(a)(4), will include adopting a mission statement that expresses the purpose and goals of the corporation, a description of the stakeholders and their reasonable expectations, and a list of measurements to evaluate the corporation's performance and goal achievement. This self-evaluation was included as a component of the Strategic Plan for FY 2024, which has been approved by the Board. They will be assessed based on this plan in November 2024.

Succession Planning – The 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

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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.

RI DOT Oversight Over Utility Relocations – Recommendation consists of the level of oversight required on utility billings during construction projects. The completion date was April 2023; however, it has not yet been implemented. In February 2024, OIA was informed that revised procedures for the Uniform Record Keeping (PURK) policy have been submitted to the Federal Highway Administration (FHWA) for approval.

RI DOC eSupervision – Outstanding recommendations pertain to the collection and use of data by management to calculate performance metrics. Their estimated completion date was June 30, 2024. However, implementation has not yet occurred as DOC is still collaborating with ETSS on these processes.

RI Narragansett Bay Commission – The outstanding recommendation pertains to the corporation's Strategic Plan, which, in accordance with RIGL § 42-155-6(6), shall be public and available to the public upon request and posted directly, or via direct link on the website of the corporation. The Strategic Plan has an estimated completion date of December 2024.

II. Continuous / RI Department of Transportation Unit

A. Indirect Cost Rate Reviews

Architectural and engineering firms engaged with the Rhode Island Department of Transportation (RIDOT) are required to submit indirect cost rate (ICR) schedules along with supporting documentation each year to the OIA Continuous Audit Unit for review and approval. The OIA approved rates are used for cost estimation on new contracts, ICR invoice adjustments, and as the basis of the ICR reimbursements until the following year's ICR is approved. In FY 2024 the unit completed and issued 84 architectural and engineering consultant indirect cost rate review letters.

Consultant's Fiscal Year End	Approved ICR Letters	Adjusted ICR Letters	Cognizant Concurrence ICR Letters	Post-PPP ICR Letters	Totals
2020	0	1	0	3	4
2021	4	2	1	1	8
2022	28	11	12	0	51
2023	15	2	4	0	21
Totals	47	16	17	4	84

The unit had to make significant adjustments to the ICR review process due to the pandemic-related Paycheck Protection Program (PPP) forgiven loans in 2021. As of April 2024, the unit had accounted for all the required PPP forgiven loan credits that were needed for the ICRs to the necessary recoveries.

B. RIDOT Audits

The OIA Continuous Audit Unit completed two performance audits in FY 2024: an audit of RIDOT's design engineering and construction contract change order management processes and an audit of RIDOT's Pavement Preservation Program. The audit reports included recommendations to improve operations and strengthen internal controls.

Design Engineering & Construction Contract 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 controls 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. During the review engagement 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 into the information systems
- Inconsistent practices for change order documentation

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.

Pavement Preservation Program

The purpose of the Pavement Preservation Program audit was to determine if RIDOT's pavement preservation strategies, processes, and procedures align with best practices and comply with applicable laws, rules, and regulations. Additionally, the audit sought to determine if source documents support and validate costs incurred and if records are accurate, complete, and up to date. The audit also looked to determine if the pavement data management system is effectively utilized to assist in pavement preservation efforts. During the audit OIA found:

- Outdated traffic data in the pavement management system
- Instances of incorrect and missing pavement data
- Limited pavement data being tracked by RIDOT
- A lack of audit trail in the pavement management system
- No training being received by RIDOT staff in the field of pavement preservation
- No tracking of impacts of declared emergencies on pavement assets

The OIA recommended that RIDOT establish a training program specific to pavement preservation, implement a process to ensure pavement data collected by the vendors is complete and accurate, and correct the pavement data collection routes to be used for future pavement assessments. The OIA also recommended that RIDOT track the impacts on pavement conditions caused by damage from extreme weather and emergency events. Additional recommendations for the pavement management system included regularly reviewing and updating the pavement and traffic data sets, implementing new methods for importing data and tracking changes that allows for utilization of the system to track data modification, and expanding the pavement data tracking in the system to include data such as skid resistance, load capacity, pavement type or service life expectancy.

III. Fraud Detection & Prevention Unit / Data Analytics

The Fraud Detection & Prevention Unit (“Fraud Unit”) continued to identify and investigate fraud within DHS programs. Investigations are initiated from a variety of sources, including data analytics, tips from the public and referrals from DHS field employees. The Fraud Unit transitioned to a new case management system referred to as IMPACT, developed using Microsoft Power Apps. This system is designed to adhere to Federal reporting requirements. Currently, enhancements are being made to the system and testing is ongoing.

C. Case Resolution

The Fraud Unit investigates and compiles evidence to proceed with cases criminally or administratively. The egregiousness of the offense and the overpayment amount determines the track the case will take. The table below reflects the total cases sent by the Fraud unit for criminal prosecution or civil adjudication in FY24.

DISPOSITION	SNAP		CCAP		RIW		TOTAL	
	CASES	AMOUNT	CASES	AMOUNT	CASES	AMOUNT	CASES	AMOUNT
PENDING	71	\$ 1,374,038	5	\$ 115,913	14	\$ 120,383	90	\$1,610,333.82
DISPOSED/PLED NOLO	5	\$ 30,560	0	\$ -	0	\$ -	5	\$30,560.00
DISMISSED W/ RESTITUTION	0	\$ -	0	\$ -	0	\$ -	0	\$0.00
DIVERSION	4	\$ 42,557	1	\$ 5,757	0	\$ -	5	\$48,314.36
TOTAL CRIMINAL	80	\$1,447,155.00	6	\$121,670.18	14	\$120,383.00	100	\$1,689,208.18
WAIVERS/ADMIN HEARING	89	\$ 307,520	0	\$0.00	0	\$0.00	89	\$307,520.00
TOTAL CIVIL	89	\$307,520.00	0	\$0.00	0	\$0.00	89	\$307,520.00
GRAND TOTAL	169	\$1,754,675.00	6	\$121,670.18	14	\$120,383.00	189	\$1,996,728.18

Criminal

- Pending includes all cases where the subjects have been arrested and the case is pending in the judiciary, combined with all cases that have been sent to RISP for prosecution but have not yet been arrested.
- Disposed/pled nolo are all cases that have been sentenced and pled nolo, allowing the imposition of a program disqualification.
- Dismissed w/ Restitution includes cases that have been dismissed but were still ordered to pay restitution.
- Diversion is a sentence imposed (usually for first-time offenders) where the defendant agrees to repay the amount obtained fraudulently and may also have to abide by conditions imposed by the court.

Civil

- Waiver means a client (for their first offense) may either admit or not admit to the allegations but may agree to be disqualified from the program for one year. The client then signs the waiver agreeing to waive their rights to an administrative hearing.
- Administrative hearing is a hearing that takes place with or without the client. If the client does not respond to the information sent out by the auditors (SNAP packet) the auditors will proceed with a hearing request, and the hearing officer will notify OIA and the client of a scheduled hearing date.

A. Significant Investigations & Activities

Skimming

Skimming is defined as a number of schemes where benefits are stolen from recipients' accounts using fraudulently obtained card and recipient personal information. Criminals use the information to make online purchases or create fraudulent cards and steal from victims' accounts. The Fraud Unit and OIA's data analyst worked in collaboration with DHS, the Federal Office of the Inspector General (OIG) and FIS Global (State of Rhode Island's vendor, who manages the Electronic Benefit Transfer Portal) to identify affected clients and prevent additional skimming.

The Fraud Unit continues to partner with DHS in the identification and prevention of skimming through the work of the Data Analytics team. During FY 2024 OIA identified 649 skimming incidents, for a total amount of \$220,681.39. OIA worked collaboratively with FIS to design controls to prevent future skimmed benefits.

Due to this implementation, OIA successfully prevented 1,297 households from being skimmed. The estimated cost avoidance is \$446,440.40.

2024 SNAP Spending(Card Swipe)	Total Transactions	Blocked Transactions	Percentage
Aug	799,367	6,755	0.85%
July	775,400	7,714	0.99%
June	736,207	14,028	1.91%
May	806,761	5,962	0.74%
April	734,800	5,991	0.82%
March	769,058	6,616	0.86%
February	734,800	6,188	0.84%
January	736,207	6,260	0.85%
Total	6,092,600	59,514	0.98%

Cover All Kids

OIA reviewed the composition of the population of recipients of benefits in the Executive Office of Human Services' Cover All Kids (CAK) program. OIA, working in cooperation with the Budget Office, reviewed the recipient's information and developed reports illustrating indicators where program controls could be strengthened. OIA communicated this information to Office of Management and Budget (OMB) and EOHHS leadership. Based on this discovery, system functionality was updated. Overall, \$6.2 million in capitation payments are being reclassified from State revenue funded programs to the appropriate Medicaid programs. This reclassification of capitation payments will result in the State receiving an additional \$3.7 million in federal Medicaid reimbursements.

Childcare Assistance Program (CCAP)

The Fraud Unit continues to investigate childcare provider and recipient fraud. OIA currently has an ongoing investigation, collaborating with the RI Attorney General, Rhode Island State Police and other government agencies to determine possible fraudulent activity across multiple programs. Data Analytics has helped OIA identify and present our findings with our counterparts. This initiative will not only combat fraud in a more enterprise-wide approach but will also enhance the integrity of our government-issued benefits.

Transition to Power BI

Data Analytics completed the office's transition of the business intelligence application to Microsoft Power BI. Power BI offers an enhanced user interface and ease of use not present in OIA's prior software package. All fraud detection and reporting tools as well as tracking reports have been rewritten in the Power BI environment and rolled out to users.

Police Training

OIA conducted a training for the Rhode Island Municipal Police Academy on March 20, 2024, to educate and collaborate on three types of fraud: skimming, trafficking and stolen EBT cards. Many recipients are going to local law enforcement departments to report this fraud. Our collaborative efforts will combat fraud in a more holistic approach. Due to the positive feedback we received from local law enforcement, OIA will initiate continuous trainings, twice yearly, to keep our local law enforcement partners privy to new fraud schemes OIA identifies in the benefit programs.

EBT for Narcotics

The Fraud Prevention Unit identified suspicious activities involving the misuse of EBT cards. After an extensive investigation, the information was shared with the United States Department of Agriculture, Office of Inspector General, who initiated an investigation, in coordination with the Cranston Police. The investigation led to an arrest of a Cranston man for allegedly selling cocaine in exchange for SNAP benefits.

Internal Fraud

OIA has been working collaboratively with the Office of Inspector General (USDA) on the identification of internal fraud through tips and data analytics. These cases are sensitive and confidential in nature. OIA has identified weaknesses in controls that increase the risk of fraud being committed. Three subjects have been identified and were terminated or forced to resign from their state government positions. One subject is currently under investigation.