

OFFICE OF INTERNAL AUDIT

OFFICE OF MANAGEMENT AND BUDGET
DEPARTMENT OF ADMINISTRATION

Q2 FY 2025
Quarterly Report
Internal Audit Activities

Administration

The Office of Internal Audit includes an authorized headcount of 21 full-time employees. At the close of Q2 FY 2025, OIA has 19 employees. There is one vacancy in the Fraud Investigation unit and one in the Performance Audits unit. Of the 19 active employees, OIA currently has two employees on long-term medical leave.

OIA is structured as follows:

- Leadership (2)
- Performance Audits (6; 1 vacancy)
- Continuous Audits (4)
- Fraud Investigation (7; 1 vacancy)
- Data Analytics (2)

I. Performance Unit

In Q2 FY 2025, the Performance Audits unit completed three audits and is actively working on eight audits, including those required per the Quasi-Public Corporations Accountability and Transparency Act (the Act), outlined in Rhode Island General Law (RIGL) 42-155-7. The Act requires OIA to conduct an audit of each quasi-public corporation at least once every five years. Performance Audits continues to dedicate staff time to the state's Enterprise Resource Planning (ERP) implementation. Below is a summary of each of the completed and ongoing audits.

A. Issued Audits

Statewide Request for Proposal (RFP) Scoring Process

OIA performed an audit of the Department of Administration's Division of Purchases (Purchases). Purchases is responsible for reviewing and approving or denying Requests for Proposal (RFP) for new acquisitions of most goods and services. As of February 2022, solicitations and competitive biddings transitioned to an online platform called Ocean State Procures. The RFP review process consists of evaluation committees selected within each agency based on participants' experience and knowledge. The evaluation committees determine a score for each RFP bidder based on technical specifications and cost. The committees present their scores in an evaluation memorandum and the bidders with the highest scores are selected. Subsequently, the State Purchasing Agent or Deputy Purchasing Agent reviews the RFP and approves or denies the purchase agreement.

The audit assessed both the efficiency and effectiveness of the procurement procedures used to evaluate vendor proposals. The audit produced the following findings:

- Bidders rely on clear guidelines and criteria provided in the solicitation's statement of work for each RFP to understand how their proposals will be evaluated. However, one RFP out of the 22 RFPs reviewed used criteria in the evaluation memorandum that differed from those in the original solicitation. When OIA recalculated points for the two original bidders, it was noted that neither bidder would have progressed to the next step due to not meeting the required minimum points threshold.

- Certain forms, such as Agency and Bidder attestation forms, are required for every RFP by Purchases without exception prior to the RFPs being posted. OIA found there were two RFPs that were posted without the inclusion of three required Bidder Attestation forms.

OIA provided the following recommendations to address these findings:

- Ensure the evaluation criteria aligns between the solicitation's statement of work and the evaluation memorandum to ensure consistency and implement a standardized procedure for recalculating scores to verify compliance with specified evaluation criteria.
- Enhance the existing validation process and checklists to ensure all requirements are met before advancing to the subsequent step.

The final report was issued on October 3, 2024.

St Mary's Home for Children

OIA performed a limited-scope audit of St. Mary's Home for Children (St. Mary's). St. Mary's is a nonprofit organization that provided residential psychiatric services to the Department of Children Youth and Families. On August 20, 2024, St. Mary's Home for Children announced that it was ending operations, including closure of its psychiatric facility, due to ongoing financial and operational challenges. Prior to closing, St. Mary's had received \$2.3 million from the American Rescue Plan Act's State Fiscal Recovery Fund (SFRF) to expand its Psychiatric Residential Treatment Facility (PRTF).

The audit evaluated the administration and use of these grant funds to ensure that any expended funds were compliant with SFRF requirements. Specifically, OIA focused the audit's scope to:

- Ensure the funds were utilized on allowable costs;
- Identify if the funds were kept in a segregated account; and
- Verify that any remaining unallocated funds were returned to the state

The audit provided no findings that would indicate discrepancies or issues with the return of unexpended funds. Additionally, OIA determined that the funds had been properly segregated, and the expended funds reviewed were consistent with the project intent and SFRF guidelines, resulting in no evidence of non-compliance with the applicable statutes.

The final report was issued on November 21, 2024.

Capital Center Commission

OIA performed an audit of the Rhode Island Capital Center Commission (Commission). The Commission oversees the development and management of the 79-acre Capital Center Special Development District in downtown Providence. Established in the 1980s, its mission is to promote economic growth, historic preservation and urban revitalization while balancing the interests of both public and private sectors. The Commission focuses on infrastructure, land use planning and architectural design to create a vibrant, sustainable urban environment that preserves the district's historical significance.

In addition to the Quasi Act review, OIA assessed the Commission's approval process of project applications. This entailed examining the presence of and adherence to the project approval procedures to ensure they are consistently applied and verifying that the internal operating

procedures are in alignment with the Commission's established objectives. The audit produced the following findings:

- As a quasi-public agency, the Commission must adhere to the requirements outlined in the Quasi Act. However, there were a few discrepancies identified that do not align with the Act's requirements. OIA found that the Commission had not published five out of 15 required items on its website. Additionally, while the Commission's policies and procedures referenced a code of ethics, the Rhode Island General Laws (RIGL) reference cited in the document was erroneous.
- Before the Commission issues a Certificate of Approval for a development project, a formal application must be submitted to the Administrative Officer. During the review, it was observed that a project was approved without this required application, deviating from the Commission's internal procedures. Additionally, eight applications were identified out of 20 where proper documentation for modification proposals was not maintained. These proposals must be approved by the Chairperson; however, six were approved by the Administrative Officer, while the other two were approved by the Design Review Committee.
- The Commission follows the document retention guidelines outlined in the State of Rhode Island's Records Retention Schedule for quasi-state agencies. However, during the review, it was found that the Commission could not provide sufficient documentation to confirm that interested parties were notified by certified mail about an upcoming hearing for a development project within the required seven-day notice period.
- Additionally, the Commission's internal procedures do not fully reflect current operational practices. For example, the policies still state that developers must submit 15 copies of the full development plan for Developer Applications, although only seven copies are now required due to the reduced number of reviewers.

OIA provided the following recommendations to address these findings:

- Revise policies and procedures to reference the correct RIGL chapter governing ethics.
- Publicly post all required information in compliance with RIGL 42-155-6.
- Strengthen the project approval process by ensuring the appropriate proposals and applications are submitted by the developer, and that only designated individuals are authorized to approve projects. Any exceptions made to allow other parties project approval should be clearly outlined in the revised policies and procedures.
- Review and update the Commission's internal operating procedures to ensure alignment with current practices and to incorporate potential efficiency improvements.

The final report was issued on December 27, 2024.

B. Ongoing Audits

Quasi-Public Agencies

The Quasi-Public Corporations Accountability and Transparency Act (RIGL 42-155-7) requires OIA to conduct an audit of each quasi-public corporation at least once every five years. As such, OIA submitted a request for proposals through the state's Master Price Agreement (MPA) 503 on March 18, 2024, for vendors to conduct a performance audit on seven quasi-public agencies. A vendor

was selected to conduct these audits, and they began on August 20, 2024. The audits are expected to be completed by the end of March 2025. Each agency undergoes a two-part audit, which includes a performance review of a process or program, as well as a compliance review to ensure adherence the Quasi-Public Corporations Accountability and Transparency Act (RIGL 42-155).¹ The seven quasi-agencies currently being audited are:

Rhode Island Infrastructure Bank

The Rhode Island Infrastructure Bank (RIIB), established in 1989, provides financing and technical assistance to local governments and non-profit organizations for infrastructure projects across the state. RIIB's mission is to support sustainable infrastructure investments that improve quality of life, foster economic development and protect the environment. The agency offers financial tools such as low-interest loans, grants and bonds to fund projects related to water, sewer, stormwater systems and energy efficiency, helping municipalities and non-profits address infrastructure challenges and reduce long-term costs. In addition to the Quasi Act review, OIA intends to review RIIB's bond issuance process.

I-195 Redevelopment Bank

The I-195 Redevelopment District Commission was established following the relocation of Interstate 195 to revitalize urban areas in Providence, Rhode Island. Covering approximately 25 acres, the Commission oversees redevelopment efforts aimed at promoting economic growth, enhancing infrastructure and improving public spaces. Key objectives include attracting businesses, creating jobs and increasing property values through mixed-use developments, green spaces and improved transportation access. In addition to the Quasi Act review, OIA intends to evaluate the land sale and acquisition process.

Rhode Island Student Loan Authority

The Rhode Island Student Loan Authority (RISLA) provides affordable financing options for higher education to residents of Rhode Island. It offers low-interest loans, financial education resources and loan repayment assistance, along with tools to help families navigate the financial aid process. RISLA aims to support the educational goals of Rhode Island residents by focusing on affordability and accessibility. In addition to the Quasi Act review, OIA intends to review the process of awarding scholarships and awardee eligibility.

Rhode Island Health and Educational Building Authority

The Rhode Island Health and Educational Building Corporation (RIHEBC), established in 1966, is a quasi-governmental agency that supports financing for capital projects of non-profit healthcare, educational and cultural institutions in Rhode Island. Its primary mission is to provide low-cost financing through the issuance of bonds, assisting organizations such as hospitals, universities and museums in expanding and improving their facilities. As a self-sustaining entity, RIHEBC works with state and local officials, as well as private sector partners, to support projects that contribute to Rhode Island's economic, educational and social development. In addition to the Quasi Act review, OIA intends to analyze RIHEBC's bond issuance process.

¹ webservice.rilegislature.gov/Statutes/TITLE42/42-155/INDEX.htm

Quonset Development Corporation

The Quonset Development Corporation (QDC), a subsidiary of the Rhode Island Commerce Corporation established in 2005, manages the Quonset Business Park located on a former Naval base in North Kingston, Rhode Island, covering approximately 3,200 acres. QDC's mission is to attract and retain businesses across industries such as manufacturing, distribution and technology, while fostering job creation, increasing tax revenue and boosting the state's economy. The corporation also oversees infrastructure improvements, including roads, utilities and telecommunications, to meet the needs of current and future tenants. In addition to the Quasi Act review, OIA intends to review a sample of expenditures related to pandemic recovery fund and the RFP process.

Rhode Island Resource Recovery Corporation

The Rhode Island Resource Recovery Corporation (RIRRC), established in 1974, is a quasi-public agency responsible for managing the state's waste and recycling programs in an environmentally sustainable and cost-effective manner. RIRRC operates Rhode Island's central landfill and recycling facilities, serving over 300,000 residents and businesses, while overseeing various waste diversion and recycling initiatives, including curbside collection, drop-off sites and composting. The agency also manages the state's electronics recycling program, hazardous waste disposal and public education efforts to promote sustainability and improve recycling participation. In addition to the Quasi Act review, OIA intends to evaluate the issuance and evaluation process of RFPs.

Administration of User Access Rights

The administration of user access rights pertains to granting state information technology system users only the essential levels of access and permissions required to fulfill their job responsibilities, including determining who has access to resources such as files, databases, applications or networks, and to what extent users can interact with them. A sampling of state systems will be reviewed to evaluate user access controls meant to ensure the security of critical systems and data.

RI Interactive's Payment Process

RI Interactive is a company owned by the subsidiary of the NIC Division of Tyler Technology. They administer digital solutions for the State of Rhode Island, including processing credit card and electronic payments on behalf of the state and municipalities. The audit scope is to focus on the current payment processes in place throughout different agencies to ensure fees charged align with industry standards and are reasonable for each agency, aiming to optimize cost-effectiveness and transparency in payment transactions.

C. Upcoming Audits

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 2025 activities. This survey is considered a management self-assessment of internal controls and is used as a basis for evaluating residual risk as well as assisting OIA in determining the following year's audit schedule.

Department of Health's Professional Licensing Process

The Rhode Island Department of Health (RIDOH) is responsible for protecting and promoting public health through a variety of programs and services. It oversees the licensing and regulation of healthcare professionals and institutions, ensuring that they meet the necessary standards for education, training and practice. OIA will assess RIDOH's process for obtaining and renewing professional licenses to identify potential opportunities for improving efficiency.

Quasi-Public Agencies

OIA is working with the state Division of Purchases on updating Master Price Agreement (MPA) 503 to encourage more vendors to bid on audit engagements. OIA plans to submit a request for proposals during the third quarter of FY 2025 to conduct a performance audit on multiple quasi-public agencies. The audits are expected to commence between May 2025 and September 2025 and conclude by the end of November 2025.

D. Management Engagements

Human Resources Enterprise Resource Planning (ERP) Implementation

OIA has committed to assist the Office of Accounts and Control with testing the payroll portion of the state's ERP implementation. This involves testing and providing feedback on payroll processes in the new system. OIA is currently supporting the ERP implementation by providing three employees for up to 20 hours each per week.

III. Continuous Audits

The Continuous Audit team is dedicated to auditing various Rhode Island Department of Transportation (RIDOT) projects, programs and operations. Their scope includes, but is not limited to, determining compliance with all applicable federal and state laws, rules and regulations.

A. Indirect Cost Rate (ICR)

Indirect costs are those costs not readily identified with a specific project or organizational activity but for the joint benefit of multiple projects and other activities of a firm. An Indirect Cost Rate (ICR) is a tool used by firms to figure out the proportion of indirect expenses that each project will bear. This is the ratio between the indirect costs of a firm and a direct cost base, the most commonly used base being direct labor. It is a prequalification requirement for all current and prospective consultants that provide professional architectural or engineering services to RIDOT. That may include consultants participating in 100% state funded projects. The Continuous Audit Unit handles the review of ICRs for vendors participating in federally funded transportation projects and performs risk assessments on the ICR presentations.

Current and prospective architectural and engineering (A/E) firms doing business with RIDOT are required to update their ICR each year in accordance with their annual accounting period (per 23 CFR Part 172.11) and to prepare the ICR in accordance with the Federal Acquisition Regulation (FAR), 48 CFR, Chapter 1, Subchapter E, Part 31. These requirements are also found in the RIDOT memorandum audit policy "To All Consultants" (TAC) 0412. TAC 0412 details how A/E firms should send their ICR presentations and other required supplemental information to the OIA for review.

In Q2 FY 2025, the Continuous Audit Unit issued six indirect cost rate review letters for A/E consultants' fiscal years ending in 2023 and one for a fiscal year ending in 2024.

B. Ongoing Audit

The Continuous Audit Unit is in the fieldwork phase of an audit of the RIDOT Broad Street Pavement Regeneration Project. The project was budgeted at \$18.2 million for the road reconstruction of Broad Street that covers a three-mile corridor in Rhode Island, starting at Exchange Street in Pawtucket through Central Falls, ending at Mendon Road in Cumberland. The purpose of the audit engagement is to determine if:

- RIDOT and the contracted vendors on the project are in compliance with applicable federal and state laws, rules and regulations;
- State purchasing regulations were followed when obtaining the goods and services for the project;
- Contracted vendors followed the terms of their contracts and source documentation is available to validate costs incurred on the project; and
- RIDOT is effectively tracking the project with accurate, complete and up-to-date records, including accurately and expediently reporting project information on the RIDOT Quarterly Reports.

C. Upcoming Audit

The Continuous Audit Unit plans on completing a second RIDOT project audit in FY 2025. The purpose of this engagement is the same as the current ongoing audit: to review a RIDOT project to determine if it was completed in compliance with applicable federal and state laws, rules and regulations and contract terms. Additionally, the audit will aim to determine if RIDOT is effectively monitoring the project with accurate, complete and up to date records.

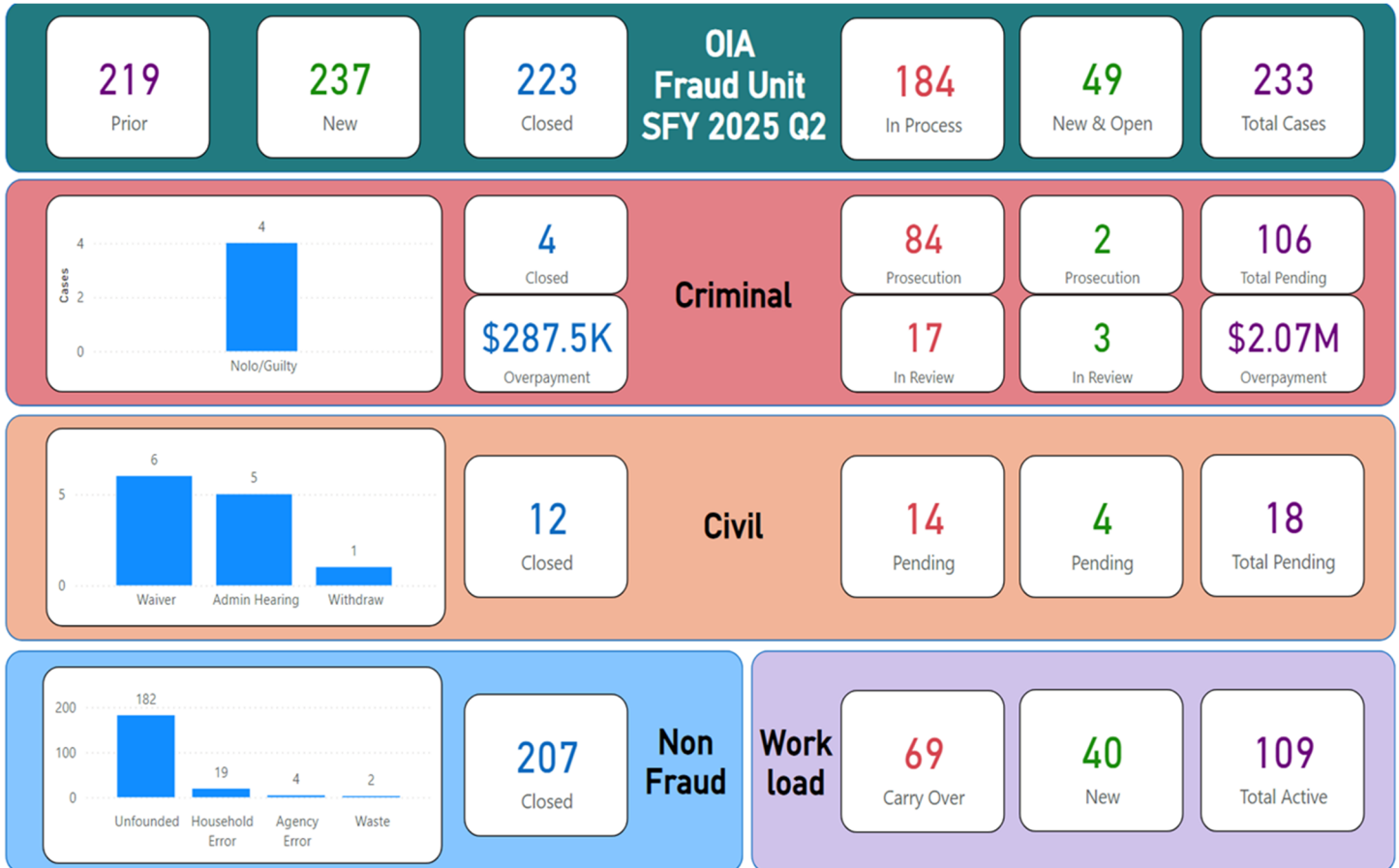
IV. Fraud Detection & Prevention Unit / Data Analytics

The Fraud Detection and Prevention Unit continues to investigate fraud within the state's Department of Human Services (DHS) beneficiary programs as well as fraud committed within other government agencies. OIA is occasionally tasked with providing fraud awareness and ethics training for state employees, conducting forensic audits, auditing state vendors and contractors, offering accounting assistance, performing investigative reviews, assessing enterprise risk, and other related duties.

Card skimming has been a major focus for the Fraud Unit, DHS, and Office of the Inspector General (OIG). In response to a surge in skimming incidents, OIA recommended security enhancements that have been successfully implemented with measurable results. Additionally, OIA is working with the OIG and Social Security Administration to combat the rise in identity fraud by analyzing data across multiple programs to detect suspicious activity. OIA is also expanding its training efforts, having collaborated with the RI Municipal Police Academy to educate officers on Supplemental Nutrition Assistance Program (SNAP) fraud.

A. 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 determine how the case proceeds. In Q2 of FY 2025, OIA investigated and closed 223 cases: four criminal cases involving \$287.5K in overpayments, 12 civil cases, and 207 cases with no finding of fraud. OIA is currently investigating 109 cases, with 106 other referred cases pending criminal prosecution and 18 cases pending civil action.



- **Prior:** Total cases at the end of last quarter
- **New:** Total new cases opened this quarter
- **Closed:** Total cases closed this quarter
 - **Criminal: Closed and Overpayment:** Criminal cases closed this quarter and associated dollar amount of fraud committed
 - **Civil: Closed:** Cases sent for civil adjudication closed this quarter
- **Non-Fraud: Closed:** Cases determined not to involve fraud this quarter
- **In Process:** Ongoing cases from previous quarters
 - **Criminal: Prosecution:** Ongoing cases pending in the judiciary
 - **Criminal: In Review:** Ongoing cases that are awaiting internal approval or calculation
 - **Civil: Pending:** Ongoing cases awaiting a hearing or waiver
- **New & Open:** Subset of the “New” cases. New cases that were opened this quarter and have not been closed
 - **Criminal: Prosecution:** New cases pending in the judiciary
 - **Criminal: In Review:** New cases awaiting internal approval or calculation
 - **Civil: Pending:** New cases awaiting a hearing or waiver
- **Total Cases:** All active cases including criminal, civil and all cases being investigated
 - **Criminal: Total Pending and Overpayment:** Total pending is the ongoing plus new criminal cases sent to prosecution or in review; overpayment is the dollar amount of fraud committed
 - **Civil: Total Pending:** Total ongoing plus new civil cases sent for adjudication and awaiting determination
- **Q2 Workload**
 - **Carry Over:** Ongoing active cases being investigated by the Fraud unit from previous quarters
 - **New:** New cases being investigated by the Fraud unit
 - Total Active:** Total active investigations currently ongoing by the Fraud unit

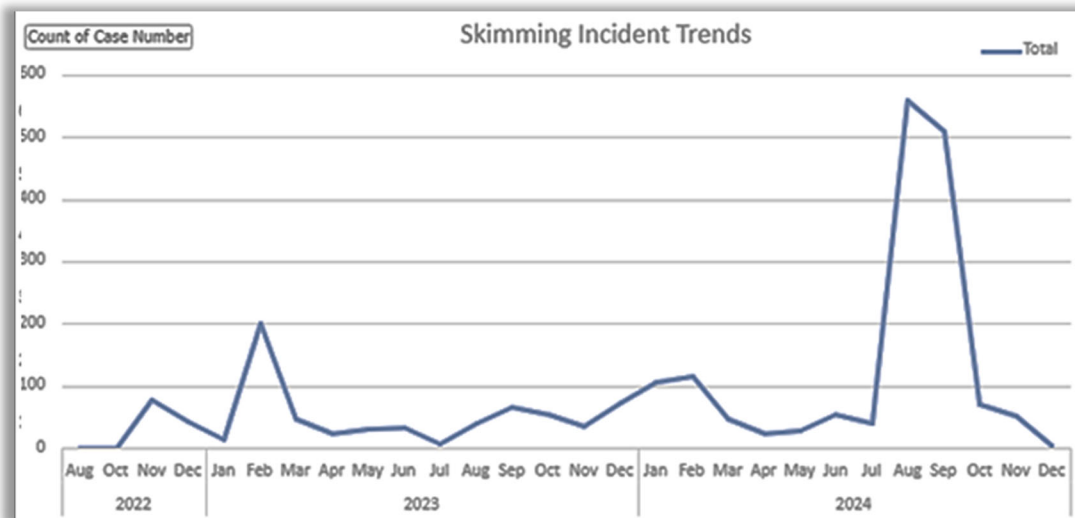
B. Significant Investigations & Activities

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, OIG and FIS Global (the State's vendor for Electronic Benefits Transfer cards, which are used for SNAP benefits) to identify affected clients and prevent additional skimming.

The Fraud Unit continues to partner with DHS in the identification and prevention of skimming through Data Analytics. Following a large increase in skimming incidents in August 2024, OIA recommended a number of security enhancements which were then implemented by FIS Global. The implemented changes included blocking the use of common PINs and preventing the reuse of the previous PINs, as well as adding date of birth confirmation as a secondary security prompt to change a PIN.

During Q2 FY 2025, OIA saw a rapid decrease in the number of skimming attempts, suggesting that the enhanced security enhancements led to a significant decrease in skimming incidents. In Q2 FY 2025, OIA identified 103 skimming incidents, for a total of \$33,315, down from 1060 incidents in Q1 FY 2025, totaling \$402,871.



Identity Fraud

Identity fraud is on the rise in Rhode Island and as part of its proactive approach to combat this growing issue, OIA is collaborating with the United States Department of Agriculture's Office of the Inspector General and the Social Security Administration. By conducting these joint investigations, OIA can share information and identify identity fraud across other programs, not just fraud within the DHS programs. By analyzing data from various sources our solution can detect suspicious patterns and inconsistencies that may indicate identity fraud. This data-driven strategy allows OIA to quickly identify potential fraud risks and streamline investigative processes.

Currently, OIA is investigating two identity fraud cases. In addition, one subject has been arrested on a third identity fraud case, but is awaiting sentencing as of the time of this report. This defendant applied for benefits under 24 different identities, applying in person as well as submitting online applications.

Training

The training officer for the RI Municipal Police Training Academy is interested in hosting another OIA-led training for various groups of law enforcement officers throughout Rhode Island, on the topic of SNAP fraud, particularly trafficking of SNAP EBT cards. OIA has previously performed SNAP fraud training for the Academy and received positive feedback. The training will take place in March 2025.