



Office of Management and Budget

*ANNUAL REPORT OF INTERNAL AUDIT ACTIVITIES*  
*Fiscal Year 2020*

## ***Message from the Chief...***

On behalf of the Office of Internal Audit (OIA), I am pleased to present the Fiscal Year 2020 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, to obtain approval of the FY 2021 Annual Audit Plan, 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 OIA adheres to the standards promulgated by United States Government Accountability Office (GAO), American Institute of Public Accountants Generally Accepted Government Auditing Standards (GAGAS) and the Institute of Internal Auditor's (IIA) standards and code of ethics. OIA expects each member of the office to demonstrate high standards of conduct and ethics as well as appropriate judgment and discretion.

### **Agility is Key**

The COVID-19 pandemic has altered the inner workings of how state government plans and delivers services to the citizens of our state and the work performed by the OIA. The State's response to the pandemic, in conjunction with the loss of revenue and receipt of federal stimulus funding, has brought about structural changes to how strategic initiatives are vetted, funded, recorded and budgeted. These changes indicate opportunities for exciting strategic developments for the State; however, they also expose our organization to a significant amount of operational, financial, reputational, and third-party risks. The OIA has and will continue to assist with the risks requiring immediate attention as a result of the pandemic, but also, look at emerging and evolving risks that will impact the organization's future state.

The role of the Office of Internal Audit (OIA) is to work proactively with management to navigate these risks and provide assurance that existing governance, risk management, and control processes are in place and optimized for effective and efficient risk mitigation. This report highlights the outcomes of key activities performed by Internal Audit during Fiscal Year 2020 to help management identify and address significant risks facing the Executive Branch of government. Additionally, this report will provide statistical details about our unit's performance metrics and utilization of resources.

During fiscal year 2020 and continuing into fiscal year 2021 the OIA is resourcing the Pandemic Recovery Office Compliance team. The Fiscal Year 2021 Audit Plan reflects the use of audit resources towards the Pandemic Recovery Office subrecipient and compliance audits. We believe that the continued presence of our auditors may help reduce the risk of misspending by subrecipients and help increase the efficiency and effectiveness of processes.

During Fiscal Year 2020, the OIA completed 11 audits and made 82 recommendations to improve operations or to strengthen internal controls. We have also responded to departments' and agencies' requests providing examples of best practices and opinions regarding controls over processes and other management advisory services.

### **Looking Ahead**

The Fiscal Year 2021 Audit Plan reflects the use of audit resources towards the Pandemic Recovery Office compliance and subrecipient audits. We believe that the continued presence of our auditors may translate to a decrease of special requests from senior management, reduce the risk of misspending by subrecipients and provide more audit coverage.

Additionally, OIA is responsible for enterprise-wide fraud, waste, and abuse oversight, especially within the Department of Human Services and Executive Office of Health and Human Services. Fraud unit resources were deployed to assist the Department of Health with contact tracing during the pandemic response and this work will continue into fiscal year 2021. Further, this unit continues to perform benefit fraud investigatory work with insight into the increased risks posed as a result of the pandemic.

I would like to thank the Department of Administration Director and Office of Management and Budget Director 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,

*Dorothy Z. Pascale*

Dorothy Z. Pascale, CPA, CFF  
Chief

# Annual Report of Internal Audit Activities FY 2020

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## Fiscal Year 2020 Audit Plan Results

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Our FY 2020 planned audits were an ambitious mix of quasi audits, financial control, operational, and compliance audits with a continued emphasis towards examining higher risk programs or agencies where we have not had a presence. A complete list of performance and vendor audits performed during the fiscal year can be found at Appendix 1.

The decrease in available resources due to leave, coupled with technology issues agencies suffered as a result of immediate remote work, impacted our ability to complete or start audits as planned. Therefore, performance metrics associated with audit plan results differ from previous years. We completed 11 performance audits during the fiscal year; 2 from the FY 20 plan, 3 carryovers from FY 19, 5 quasi-public agency audits, and 1 audit requested by management. Further, 1 audit from the FY 20 plan is currently issued for management comment; there are 9 management corrective actions included within the report.

In addition to the audits noted above, we assisted the following divisions with management advisory services:

- Grants Management Office – research of funding opportunities available to agencies
- Pandemic Recovery Office – established and resourced the compliance team
- Department of Environmental Management- Master Price Agreement Vendor Investigation
- Department of Environmental Management- Financial Management Assistance
- Department of Children, Youth, and Families- TIGER Team
- Department of Human Services- Veterans Home- Staffing Analysis
- Attorney General – Settlement Fund Balance

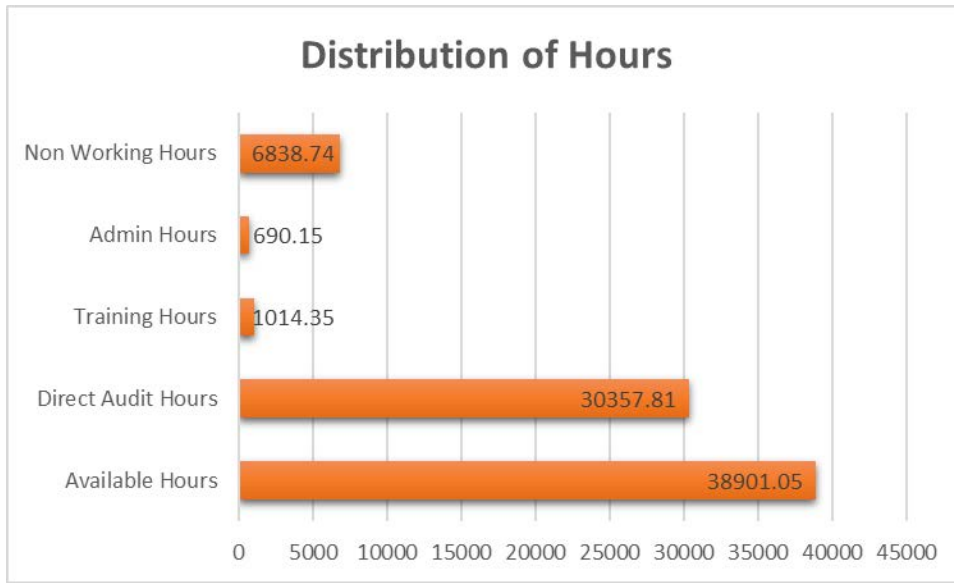
The Investigation unit is fully staffed and integrated with the Data Analytics unit. As a result, targets and leads are more quickly generated and vetted. The unit now has a path to process fraud cases criminally via the State Police White Collar Crime Unit and the Attorney General Office. To date we have received eighteen dispositions from an arrest totaling \$99,151.64. There are 84 pending criminal cases totaling \$566,889.72; 10 of these cases have been referred to the Judiciary Diversion Program totaling \$32,052. Additionally, the Data Analytics and Fraud teams assisted the Department of Health Contact Tracing unit to find those individuals who provided inaccurate location information.

## Key Performance Indicators – Performance Audit

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### Distribution of Audit Hours

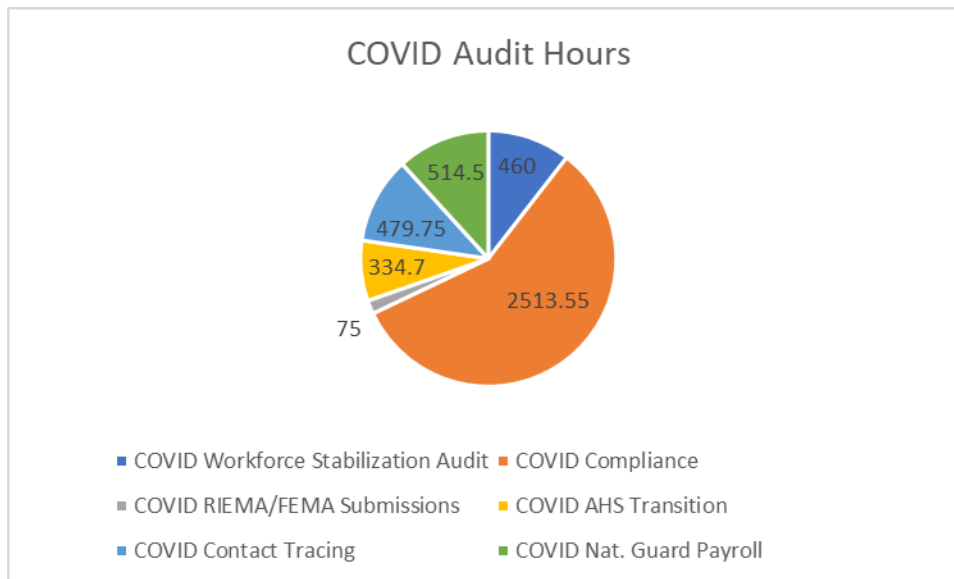
The performance audit unit target goal is 70-75% of total hours for Audit, Investigations, and Advisory Services. FY 2020 total for these three categories is 78% of total hours. This percentage includes the Pandemic Recovery Office Compliance Unit which accounted for 2,514 hours or 17% of total audit hours. The chart below illustrates the distribution of staff hours. For purposes of this chart the Chief and Deputy Chiefs' time has not been considered.



## Resources and Effort

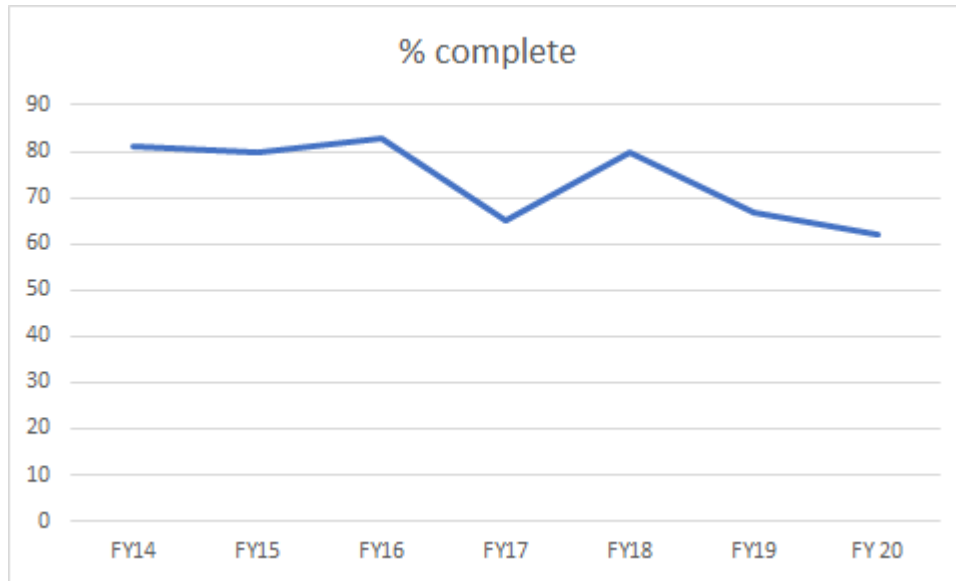
The OIA has a breadth of responsibilities with its organization. During the last half of fiscal year 2020 and continuing into fiscal year 2021, Grants Management activities were administratively reporting to the Chief as part of the Pandemic Response Office compliance activities. To assist management and be agile in our work, some staff were redeployed to projects associated with the CARES Act funding received. Starting the last week of March, OIA dedicated 4,377.5 hours (14.5%) of the 30,358 annual available audit hours. These hours are permitted to be reimbursed by coronora-virus relief funds if available.

The chart below details the COVID hours by task.



## Audit Plan Completion

The increased reputational, fraud and financial risks associated with the COVID-19 pandemic response and related federal stimulus continues to affect the enterprise wide assessment of control risks and the resulting audit plan. During Fiscal Year 20 audit plan completion was 62%; the established benchmark for audit plan completion (75%) was not met. This is a direct result of staff working as part of the Pandemic Response Office Compliance team, agency staff not available due to remote work, and long-term leave of two staff members.



## Management Corrective Actions (MCA)

### MCA Comparison to Hours

Our FY 20 audit program work 11 public audit reports resulting in 82 MCAs. Comparison of MCAs and Hours for the public audit reports are summarized in the below chart.

Functional Area	# of MCA	Total Hours	MCA %	Hours %
Auxiliary/Bus Dev	47	904.75	57%	42%
Financial Management	16	384.75	20%	18%
Compliance	5	746.75	6%	35%
Quasi Audit	14	111.5	17%	5%

Of the 82 MCAs issue (46%) were implemented prior to the release of this report. The remaining 44 are classified as follows:

- Elevated Risk: 14
- Intermediate Risk: 30
- Minimal Risk: 0

In addition to the 11 public reports issued, three additional auxiliary/business development audits were substantially complete as of fiscal year end. The fieldwork for the following audits concluded prior to the start of fiscal year 2021 and accounted for 4,796 direct audit hours:

- Department of Corrections- Sentence Reduction Credits
- Department of Transportation- National Highway Traffic Safety Administration's (NHTSA) Minimum Penalties for Repeat Offenders while Intoxicated project grant
- Department of Human Resources- Payroll Audit.

## Outstanding MCA Summary

MCAs are classified initially as open and are only moved to closed status after validation by auditors that the agreed upon corrective actions have been completed by management, the associated risk has been adequately mitigated and sustainable improvement has been achieved; or management has documented the acceptance of risk and it was approved by the Audit Advisory Group. As of fiscal 2020 close, no elevated risks were accepted by management. The number of outstanding MCA reflected as of year-end is heavily impacted by the pandemic as remote work impeded our ability to follow up with agency contacts.

Outstanding MCA	
Fiscal 19 Balance	66
Fiscal 20 Issued	82
Fiscal 20 Closed	70
<b>Fiscal 20 Balance</b>	<b>78</b>

As noted above, 78 recommendations for improvement remain unresolved. The status of the outstanding corrective actions is shown in the chart below.

Outstanding Management Corrective Action													
Time Period Outstanding Risk Level	Not Due			0-3 Months			3-6 Months			6-12 Months			Grand Total
	L	M	H	L	M	H	L	M	H	L	M	H	
<b>Project</b>													
BHDDH- DD		4	1		2							1	8
DHS- Child Support						4							4
CCRI- Internal Payroll										4	1		5
RIC- Internal Payroll		1								4	5		10
URI- Internal Payroll		1								1			2
BHDDH- RICLAS										4	1		5
Education- METSchool		1			7								8
DOH- Customer Service					6			5					11
Quasi- SBLF										1			1
Quasi- RIIFC										1			1
DLT- WRS								8	14				22
MPA-372								1					1
<b>Grand Total</b>	<b>0</b>	<b>7</b>	<b>1</b>	<b>0</b>	<b>15</b>	<b>4</b>	<b>0</b>	<b>14</b>	<b>14</b>	<b>0</b>	<b>15</b>	<b>8</b>	<b>78</b>

## Development of the Audit Plan

The audit plan is typically designed through a high-level risk assessment to provide coverage of key risks and allow for an independent review of specific business processes given the existing staff. Key factors that are considered when assessing risk and developing the audit plan include:

- The Financial Integrity & Accountability Survey
- Time since last audit engagement
- Auditor General notable findings
- Budget Analysis
- Management survey assessing strategic, operational, financial, compliance, reputational, and health & safety risks across state agencies

In addition to project selected based on risk assessment results, audit hours are dedicated to follow-up reviews, carry-forward projects, management advisory services, and training. Given the current state of affairs, the performance unit will present its audit plan quarterly. Appendix 2 provides details on the fiscal year 2021 quarter 1 audit plan.



## Key Performance Indicators – Investigation

### Case Load Inventory to Staff Ratios

- Identified: 666 : 1
- Assigned: 100 : 1

The chart below summarizes the current case load information.

<i>Description</i>	Identified			Assigned		
	<i># Cases</i>	<i>Gross \$</i>	<i>State Share \$</i>	<i># Cases</i>	<i>Gross \$</i>	<i>State Share \$</i>
Leads Generated from Data Analytics	3,068	\$2,966,352.00	\$1,516,723.20	184	\$204,487.12	\$71,570.49
Fraud Hot Line Tips	167	\$87,512.40	\$30,629.34	167	\$87,512.40	\$30,629.34
Referred from Field Offices	832	TBD	TBD	318	TBD	TBD
Transferred at Reorganization	572	TBD	TBD	6	\$9,976.26	\$3,491.69
Referred from Other Agencies	23	\$19,243.09	\$6,735.08	23	\$19,243.09	\$6,735.08
<i>Totals</i>	<i>4,662.00</i>	<i>\$3,073,107.49</i>	<i>\$1,554,087.62</i>	<i>698</i>	<i>\$321,218.87</i>	<i>\$112,426.60</i>
TBD - Amounts are not yet known						

## Data Analytics Activity Summary

The following is an example of current activities. These cases have not been fully vetted and are not currently in the queue for the Fraud Unit.

Suspected Fraud, Waste or Abuse			
Dataset	Suspected Cases	High Risk Cases	High Risk Description
Incarceration	437	27	Spending while incarcerated
Deceased	523	25	Identity Theft (Spending while deceased)
EBT Card Issues	1135	270	Person with 6 or more EBT card replacements
Out of State Transactions	529	529	No RI purchases in prior 3 months
Workers Comp	110	14	Not reporting Workers Compensation income on application for injury date 2018 or 2019
PARIS	521	427	Spending on multiple cards (RI and non-RI cards)
Suspicious Transactions	197	43	Person with 10 or more total transactions in one store
Underreported Income	620	330	snap wages exceeds 175% FPL
Childcare	20	20	Recipient wages exceeds 175% FPL
<b>Totals</b>	<b>4092</b>	<b>1685</b>	

## Fiscal Year 2020 Budget Performance

Our annual budget continued to reflect our ability to recover funds from DHS and DOT for costs associated with audits and fraud investigations as allowed by the statute. Additionally, 4,377 hours were assigned to COVID related duties and were funded with Coronavirus Relief Funds as opposed to general revenue. We once again used consultants from the master price agreement who provided staff augmentation to complete the mandated quasi audits as is allowed by statute. The following amounts were billed to the agency for reimbursement for services rendered and be recorded as a receivable.

### Costs and related Recoveries associated with DHS Fraud and DOT Audits

The billed but not recovered portion of the chart represents the third and fourth quarters billings for DOT and the fourth quarter billing for DHS. Both of these entries were recorded subsequent to the release of this report and represent approximately 25% of the annual OIA fully loaded salary and wage expenses.

<u>Agency</u>	<u>Billed out</u>	<u>Recovered</u>
DOT	\$594,775.71	\$594,775.51
DHS	\$425,331.64	\$425,331.64
Total	\$1,020,107.35	\$1,020,107.35

## **Appendix 1 – Final Audit Reports Issued Summary**

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### **Operational/Business Development**

#### **Metropolitan Regional Career and Technical Center (The Met)**

The Met should consistently validate the credentials of the paraprofessionals. Improve bid solicitation and advertisement to foster effective competition and obtain optimal value for expended funds. Ensure adequate supporting documentation is collected and approved for all disbursements from student funds. Develop and implement a policy which details allowable and unallowable expenses for student funds. Establish clear expectations for reconciliation process and provide training to staff with bank reconciliation responsibilities to ensure they possess knowledge and skills to timely and accurately complete month-end reconciliations, as well as, investigate and resolve discrepancies and reconciling items. Implement procedures for management review and attestation of completed reconciliations. Develop written policies and procedures to comply with RIGL governing unclaimed property. Work cooperatively with DCAMM to execute a lease agreement which details rights and responsibilities of utilizing state-owned real property.

#### **Department of Health- Center for Health Facilities Regulations (CHFR)**

The CHFR's control environment was weak. The unit experienced a high turnover in management, and therefore, there was a lack of continuity in management style and strategic planning. The CHFR should ensure the timeliness of inspections and complaint investigations. This requires the CHFR to perform an analysis of resource needs to perform required state mandated inspections and investigations and prepare and implement a plan to deploy resources to comply with all state inspection laws and guidelines. The unit should develop a comprehensive inventory of inspection status. There is a need to refine performance metrics and conduct a risk analysis of discretionary tasks. The unit should improve its scheduling of staff. Management needs to streamline its business processes and evaluate efficacy of partnerships with other inspectors.

#### **Department of Labor and Training- Division of Workforce Regulation and Safety (WRS)**

Weak control environment over the enforcement of administrative assessment fees required by law and the waiver of penalties. Insufficient control activities and antiquated technology contributed to the issues identified. To strengthen controls the WRS should determine an estimated cost and feasibility of a new system. Improve the process and accountability to assess or waive administrative fee or penalties. Assign, investigate, and track labor cases to improve due process. Improve quality assurance over complaint folders. Remit settlement checks timely. Update and improve written policies and standard operating procedures for the Labor Standards Unit. Perform required elevator and boiler inspections timely. Ensure boiler and pressure vessel inspectors are certified. Address elevator code deficiencies timely. Perform required number of unannounced annual inspections for hazardous substances under the Right to Know unit.

### **Financial Control**

#### **Department of Human Services- Veterans Home Representative Payee Account**

Controls need improvement over the Veterans Home representative payee account. The Vets home should document authority to manage resident funds. Documentation over resident disbursements needs improvement. The Vets home should ensure adequate segregation of duties and implement reconciliation procedures. Further, the Vets home should improve controls over maintenance fee collection. Formal, documented policies and procedures should be developed, inclusive of the establishment and adherence to a policy regarding closing accounts.

## Compliance

### Master Price Agreement 372- tree and shrub trimming removal

Recommendations pertinent to the review of this MPA usage across the Department of Administration, the Department of Transportation, the Department of Environmental Management, and the RI National Guard included: maintain adequate supporting documentation to substantiate the solicitation of quotes. Ensure purchase orders and payments are issued to contracted vendors. Adhere to contract terms, specifically including a cost breakout on invoices. Ensure purchase order is awarded prior to start of non-emergency work.

### Office of the Attorney General- Construction of Customer Service Center

To improve contract oversight, the AG should obtain and review required documentation from vendors to verify compliance with contract terms prior to final contract closeout and release of retainage.

## Legislative Mandate

Department of Administration

- Financial Integrity and Accountability Report
- Quasi-Public entities (see below)

## Quasi-Public Audits

### Rhode Island Small Business Loan Fund Corporation (SBLF)

The SBLF did not fully comply with all the requirements of the Quasi Transparency Act, specifically it did not provide documentation of identified performance measures, or support of a self-evaluation based on established measures. Further, the SBLF did not publish to its website all required information per RIGL §42-155-6. Management should ensure required loan eligibility documentation is maintained for all loans. The SBLF should review, update, and approve policy manual timely. Management should comply with its annual loan review requirements as defined.

### Rhode Island Industrial Facilities Corporation

The Agency did not fully comply with all the requirements of the Quasi Transparency Act, specifically it did not provide documentation of identified performance measures for its mission as required by the Act and there was no documentation to support a self-evaluation based on established measurements. Further, the RIIFC did not publish to its website all required information per RIGL §42-155-6. The OIA noted corrective action should be taken to ensure competitive pricing is obtained for each private placement bond. Management should develop a formal policy to govern bond issuance and monitoring processes.

### Rhode Island Industrial Recreational Building Authority

The Agency did not fully comply with all the requirements of the Quasi Transparency Act, specifically it did not provide documentation of identified performance measures for its mission as required by the Act and there was no documentation to support a self-evaluation based on established measurements. Further, the IRBA did not publish to its website all required information per RIGL §42-155-6. To strengthen controls the Authority should increase its monitoring of bond insurance premium payments.

### Rhode Island Housing and Mortgage Finance Corporation

Agency complied with all Quasi Public Transparency Act requirements. The procedures performed to evaluate the multi-family risk share program did not reveal control weaknesses or issues that rise to the level of reportable.

### Rhode Island Airport Corporation

Complied with all Quasi Public Transparency Act disclosures. Best practices were identified that could improve monitoring compliance with operational standards stipulated in the concessionaire contracts. The Corporation was performing at or above average for: enplanement numbers, concession and parking revenue and operating statistics, and general revenue statistics in comparison to other selected airports.

## **Vendor Compliance Audits**

Indirect Cost Rate Reviews of 45 RIDOT vendors

### Groden Center, Inc.

The Groden Center review revealed instances of noncompliance with contract terms, rules and regulations, as well as, questioned and unallowed costs. In total the report detail \$61,845.00 in questioned and disallowed costs, the disallowed cost were charges for entertainment and fund-raising expenses while the questioned costs were related to undocumented payroll expenses. Weaknesses in internal control were noted in the invoicing, licensing and reporting areas. Additionally, it was noted that the staffing was inadequate and not properly trained in some areas.

### AECOM Technical Services, Inc.

AECOM should ensure that contracts are properly authorized by a contract addendum prior to performing work. Adhere to billing policies and procedures and invoice in accordance with contract terms. Ensure indirect cost rate adjustments are submitted timely to the RI Department of Transportation in accordance with contract terms and audit policy. Calculate the actual amount of indirect costs to be reimbursed to the RI Department of Transportation, submit corresponding adjustment invoices and refund or credit any overcharges. Review subconsultant invoices thoroughly to ensure accurate invoicing and compliance with contract terms prior to billing the State. Submit timely payments to subconsultants in accordance with contract terms and applicable regulations.

## Appendix 2 – Proposed Fiscal 2021 Q1 Audit Plan

### Performance Unit

The proposed audit plan will be developed quarterly considering the current times to maintain operational agility. Continuing into the first quarter, OIA will resource the Pandemic Recovery Office Compliance Team. Audit resources during quarter 1 will also be directed toward Pandemic Recovery Office subrecipient or compliance audits. Due to staff extended leave absences, OIA is contracting with our master price agreement firms for staff augmentation to complete these audits. The costs associated with staff augmentation will be funded with Coronavirus Relief Funds.

The total audit universe is 41 state agencies and 18 quasi-public agencies. In accordance with RIGL 42-155, every five years each quasi-public agency is subject to a performance audit. The proposed audit plan below includes the scheduled four quasi-public agency audits (22%) and considers the continued effect of the pandemic upon agencies remote operations.

Performance Audit Unit: Quarter 1 Plan				
Agency	Division/Program/Process	Quarter	Hours	Comments
Executive Office of Health & Human Services	Workforce Stabilization Loan Program	Q1	1400	Compliance audit of all the providers who received payments from the Workforce Stabilization Loan Program
Emergency Management Agency	Federal Emergency Management Agency	Q1	800	Review of FEMA reimbursements
<b>Mandated Audit Assignments</b>				
Quasi- RI Convention Center Authority	Parking garage construction project	Q2	75	Oversight of external audit firm
Quasi-RI Turnpike and Bridge Authority	Truck toll revenue collection & remittance	Q2	75	Oversight of external audit firm
Quasi-RI Public Transit Authority	Management to board reporting, cash management, & financial reporting	Q1	100	Oversight of external audit firm
Quasi- RI Tobacco Settlement Financing Corp	Establishment as a Quasi-Entity	Q2	800	OIA staff to perform audit
Financial Integrity & Accountability Survey	State & Quasi-Public Entities	Q2	500	Integration into new audit software

### Continuous Auditing and Monitoring

The first quarter audit plan will consist of near full concentration to complete the 2019 Indirect Cost Rate (ICR) submissions from RIDOT vendors. Additionally, this unit will be working on supporting or completing the following projects;

- TransSystems Vendor Audit (Projected issuance Q1 2021)
- Support for the transition of the Alternative Hospital Site management to DOA

### Fraud/Data Analytics

The Fraud /Data Analytics Group will continue concentrating on its primary mission of investigating fraud within the Department of Human Services programs. In addition, this group will continue its support of the Rhode Island Department of Health contact tracing efforts by providing advanced identity /contact research for hard to locate individuals.

During the fourth quarter of FY 2020 the regularly scheduled OIA/EOHHS/DHS monthly data meetings were suspended due to the overwhelming impact that the COVID-19 State of Emergency has had on DHS and EOHHS. These meetings will resume during the first quarter of FY2021 with emphasis on opportunities for fraud created by CARES Act changes to benefits and eligibility determinations during the crisis.