

Office of Management and Budget
Department of Administration

ANNUAL REPORT OF INTERNAL AUDIT ACTIVITIES
Fiscal Year 2018

Message from the Chief...

On behalf of the Office of Internal Audit, I am pleased to present the Fiscal Year 2018 Annual Report of Internal Audit Activities. The purpose of this report is to obtain approval of the FY 2019 Annual Audit Plan, to demonstrate that the internal audit function is operating as intended, and to establish our accountability to the Internal Audit Advisory Group.

The State of Rhode Island Executive Branch of government is undergoing a significant amount of changes initiated from both internal and external sources. Some of these changes include:

- Budgetary impacts as a result of changes to federal program funding
- Organizational and operational efficiency initiatives at the program or department level
- Aging IT infrastructure and expanding use of emerging technology such as cloud services
- Transition of key leadership positions especially in mid-level management

These changes indicate opportunities for exciting strategic developments for the State; however, they also expose our organization to a significant amount of operational, financial, and reputational risks. 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 2018 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.

The Fiscal Year 2019 Audit Plan renews our goal to shift our audit methodology from project-based, risk aversion auditing towards value creation, and continuous auditing/monitoring of critical controls. To continue implementation of this new perspective, we have allocated 30 percent of direct audit hours towards the development and performance of critical-controls auditing/monitoring including vendor compliance audits, and increased staff training. The implementation of data driven continuous auditing/monitoring will allow us to inform the Internal Audit Advisory Group and senior management whether controls are working as intended or are compromised. We also believe that the continued presence of our auditors, because of the value creation methodology and continuous auditing/monitoring being proposed, may translate to a decrease of special requests from senior management and provide more audit coverage.

During Fiscal Year 2018, the OIA completed 11 audits and made 96 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 or other management advisory services.

Also, this was the first full fiscal year with an Investigative Unit. This unit 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. This unit also collaborates with the other fraud units within the executive branch. The OIA has successfully implemented the State Wide Integrated Fraud Technology solution (SWIFT) which is the case management tracking software for the Investigative Unit. This software was deployed on time and on budget and has streamlined the case documentation requirements for criminal or civil proceeding.

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 and continued dedication to the citizens of our State, and to the internal audit profession.

Sincerely,

Dorothy Z. Pascale, CPA, CFF
Chief

Annual Report of Internal Audit Activities FY 2018

Contents

Message from the Chief.....	1
Fiscal Year 2018 Audit Plan Results.....	3
Key Performance Indicators – Audit.....	3
Audit Hours Distribution.....	3
Resources and Effort.....	4
Internal Audit Program Staff Statistics to Plan.....	4
Audit Plan Completion.....	5
Management Corrective Actions (MCA).....	5
MCA Comparison to Hours.....	5
Outstanding MCA Summary.....	6
Key Performance Indicators – Investigation.....	6
Case Load.....	6
Revenue Target.....	7
Data Analytics Activity Summary.....	8
Fiscal Year 2018 Budget Performance.....	8
Appendix 1 – Final Audit Reports Issued Summary.....	9
Appendix 2 – Proposed Fiscal 2019 Audit Plan.....	11

Fiscal Year 2018 Audit Plan Results

Our FY 2018 planned audits were an ambitious mix of quasi audits, financial control and strategic risk 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 in Appendix 1.

We completed 11 of the 13 planned performance audits or 85% of planned audit engagements during the fiscal year and had a carry forward of 3 audits into FY 2019. In addition to the performance audits noted above, we assisted the following divisions with management advisory services:

- Divisions of Capital Management and Maintenance – State Fleet Vendor Selection
- Human Resources Workers Compensation Unit – Privatization of Workers Compensation
- Human Resources – Investigation of Managerial Harassment

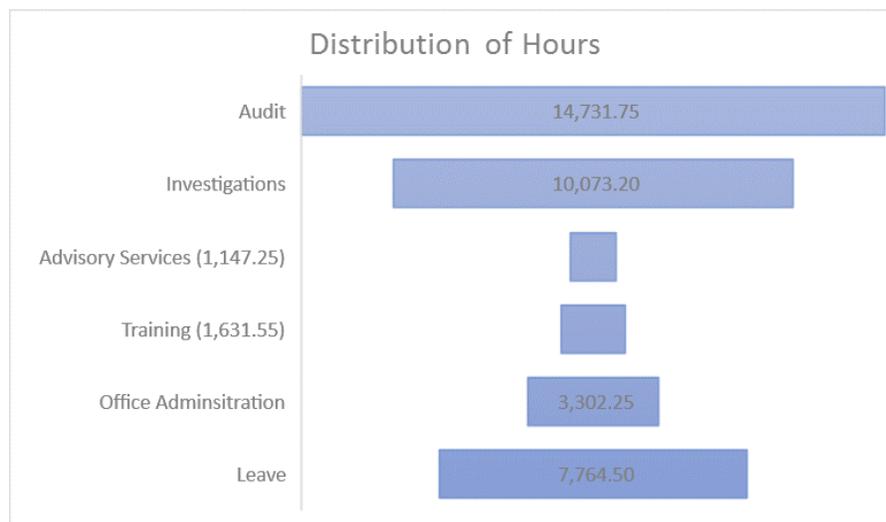
We completed the reorganization of the Investigation and Continuous Auditing and Monitoring (CAM) units. The CAM responsibilities were restructured to include continuous monitoring of internal controls by leveraging data analytical generated reports to increase our presence in vendor compliance audits. To achieve these goals, a new Continuous Auditing Manager was selected; two internal auditors were hired; and IIA compliant policies and procedures were established.

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. To date we have referred seven cases resulting in two arrests and subsequent arraignment.

Key Performance Indicators – Audit

Audit Hours Distribution

The target goal is 70-75% of total hours for Audit, Investigations, and Advisory Services. The FY 2018 total for these three categories is 68% of total hours. This reduction is attributable to turnover and long term sick leave for two employees during the fiscal year. The chart below illustrates the distribution of staff hours. For purposes of this chart the Lean and Grant staff time have not been considered.



Resources and Effort

The OIA has a breadth of responsibilities within its organization. Grants Management and Lean activities are not administratively reporting to the Chief. As depicted in the following chart, the OIA experienced a second year of above average turnover specifically within the Investigations and Performance units. Headcount levels were impacted due to parental leave, long term sick leave and separation from service. Most staff posted to higher level positions in the private sector. Although the turnover was greater than 25% for a second consecutive year, unit production remained strong.

Office of Internal Audit Staff Statistics			
All Staff	FY18	FY18	Prior Year
	Plan	Actual	Actual
Investigators	8	6	5
Audit Staff	17	12	12
Grants Management	3	3	1
Lean	1	1	1
Data Analytics	2	2	-
Total Authorized	31	24	19
Average Actual Filled	30	19	17
Percent Filled	97%	79%	89%
Ending Head count	29	24	23
Turnover *	8%	26%	29%

Internal Audit Program Staff Statistics to Plan

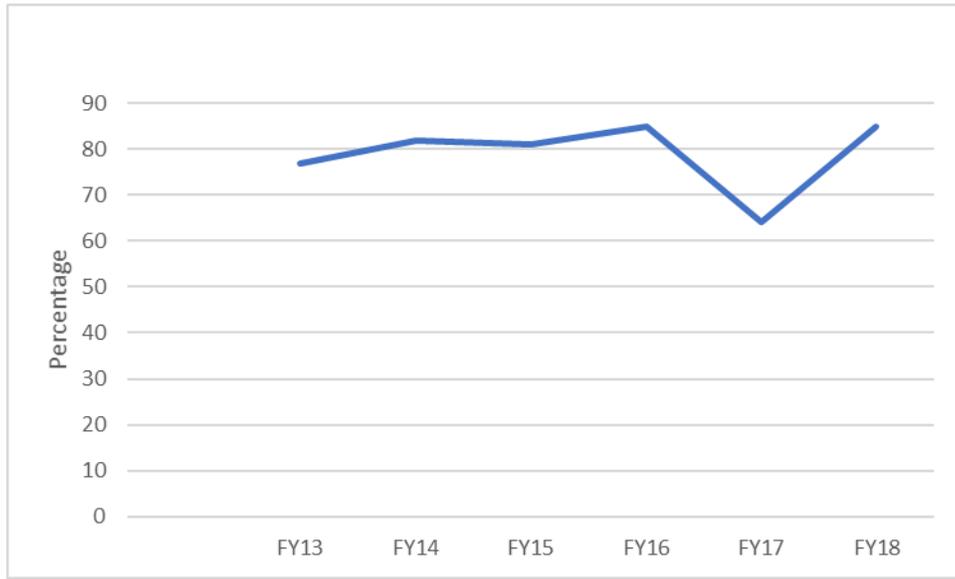
Internal Audit Program Staffing provides statistics benchmarked against the plan and prior year figures. A summary of statistics about experience, education, professional certifications and training are also included. During this past fiscal year, three of our staff members have achieved their Certified Public Accountant (CPA) licenses, and two have achieved a Certified Internal Auditor license in addition to their CPA license.

Internal Audit Staff	FY18	FY18	Prior Year
	Plan	Actual	Actual
Qualifications			
Average Years Total Audit Experience	N/A	11 years	11 years
Average Years OIA Audit Experience	N/A	4 years	5 years
Audit Chief Experience	N/A	30 years	30 years
Percent of Audit Staff with Bachelor Degree	N/A	100%	95%
Percent of Audit Staff with Advanced Degrees	N/A	14%	28%
Training hours per auditor	40	40	40
Percent of Staff holding Professional Certifications	N/A	41%	37%

N/A Not applicable to plan data

Audit Plan Completion

The increased reputational, fraud and financial risks associated with the deployment of the Department of Human Services eligibility system continues to affect the enterprise wide assessment of control risks and the resulting audit plan. During FY 2018, the established benchmark for audit plan completion (75%) was exceeded. This is a direct result of staff working additional hours and improved audit scoping and planning.



Management Corrective Actions (MCA)

MCA Comparison to Hours

Our FY 18 audit program work produced 11 public audit reports resulting in 96 MCAs. Comparison of MCAs and Hours for the public audit reports are summarized in the below chart.

Functional Area	Number of			
	MCA	Total Hours	MCA %	Hours %
Legislative Mandated	0	0.00	0%	0%
Auxiliary /Bus Dev	45	1,695.50	47%	29%
Financial Management	38	3,712.00	40%	63%
Quasi Audit	13	509.00	14%	9%

Of the 96 MCAs issued, 58 (60%) were implemented prior to the release of this report. The remaining 38 are classified as follows:

- Elevated Risk: 6
- Intermediate Risk: 29
- Minimal Risk: 3

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. As of fiscal 2018 close, no elevated risks were accepted by management. The 51 outstanding MCAs from the 2013 Security Policy Gap Analysis were superseded with the issuance of the Ernst and Young enterprise cyber risk audit conducted by the Homeland Security office during this fiscal year. Therefore, these 51 MCAs have been “closed” and included in the below chart since they are being tracked by Homeland Security. Management addressed 90% of the open MCAs from FY 17.

Outstanding MCA			
	Balances	Adjustments	Year End Totals
Fiscal Year 17 balance	87	-51	36
Fiscal Year 18 issued	96		96
Fiscal 18 closed	(134)	51	(83)
Fiscal 18 balance	49		49

As noted above, 48 recommendations for improvement remain unresolved. The status of the outstanding corrective actions is shown in the chart below.

Count of Priority	Aging Group		Priority		3-6 Months		6-9 Months	12+ Months	Grand Total
	Not Due	0-3 Months	High	Medium	High	Low	Medium	Medium	
Project Code	Medium	High	Medium	High	Low	Medium	Medium	Medium	
16QuasiRICC - Quasi - Rhode Island Commerce Corporation								2	2
17DLTWDS - DLT -Injured Worker Services		1							1
17DOAEnergy2 - DOA Energy Resources					7	3	7		17
17DOTVENTURINO - RIDOT Vendor-Turino Group Inc.		11							11
17RIDE Davies - RIDE - Davies Career and Technical High School		6	1	2		1			10
18 - URI Athletic Financial Controls - URI Athletics							4		4
18QuasiRIPTA - Quasi - Rhode Island Public Transit Authority				2					2
18VENLOGIST - Vendor - Logisticare							1		1
Grand Total	18	1	4	7	4	12	2	1	49

Key Performance Indicators – Investigation

Case Load

The unit experienced significant turnover as previously noted in this report. Additionally, during November 2018 the data analytics team was established which generated 3,296 fully vetted new cases for this investigative team by fiscal close.

Case load inventory to staff ratios are:

- Identified: 796 : 1
- Assigned: 57 : 1

The chart below summarizes the current case load information.

Description	Identified			Assigned		
	# Cases	Gross \$	State Share \$	# Cases	Gross \$	State Share \$
Leads generated from data analytics	3,296	3,003,232	1,841,862	174	TBD	TBD
Fraud Hot Line Tips	87	\$ 37,556.78	\$ 13,144.87	87	\$ 37,556.78	\$ 13,144.87
Referred from Field Offices	16	\$ 26,058.13	\$ 9,120.35	16	\$ 26,058.13	\$ 9,120.35
Transferred at reorganization	572	TBD	TBD	2	TBD	TBD
Referred from Other Agencies	8	\$ 352.00	\$ 123.20	8	\$ 352.00	\$ 123.20
Totals	3,979	\$ 3,067,199	\$ 1,864,251	287	\$ 63,966.91	\$ 22,388.42

TBD – amounts not yet known or calculated

Revenue Target

The fiscal budget established a general revenue target of \$8.5M. Using data analytics, the unit identified \$4.92M from Department of Human Resources programs. Due to the outstanding mandate from the DHS federal partner, Food and Nutrition Services, we are precluded from any negative action related to the SNAP program. Additionally, the Executive Office of Health and Human Services has determined that all Medicaid corrections or claw-backs from providers will be postponed until further notice. These amounts will be recorded as a receivable at fiscal close. Here is a detailed breakdown of the \$4.92M:

Medicaid Clawback	\$ 3,218,350	
Incarcerated File Match	\$ 1,213,677	
Enhanced SSA Identity Verification	\$ 381,024	
Increase in SNAP Disqualifications	\$ 75,000	
SNAP Cases Adjudicated	\$ 21,168	
Out of State Spending (SNAP)	\$ 13,306	
SoS Corporation Data Match	TBD	
Total Estimated Revenue Generated	\$ 4,922,524	

The remaining \$3.97M will be achieved by the case load inventory above totaling \$1.864M and additional Medicaid claw-back estimated to be \$2.5M.

Data Analytics Activity Summary

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

Suspected Fraud, Waste or Abuse			
<i>Dataset</i>	<i>Suspected Cases</i>	<i>High Risk Cases</i>	<i>High Risk Description</i>
Incarceration	437	23	Spending while incarcerated
Deceased	496	136	Identity Theft (Spending while deceased)
EBTCardIssued	1,217	383	Person with 6 or more EBT card replacement
OutofState Transaction	724	724	No RI purchases in prior 3 months
WorkersComp	135	17	Not reporting Workers Compensation income on application for injury date within 2016 or 2017
PARIS	467	388	Spending on multiple cards (RI and non-RI cards)
StudentMatching	1,127	528	Student address mismatch with Bridges
SuspiciousTransaction	128	36	Person with 10 or more total frequent transactions on one store
Totals	4,731	2,235	

Fiscal Year 2018 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. Our FY 2018 budget was heavily weighted towards salaries (65%) with basic services (licenses, telephones) and office supplies the next largest expenses. We once again used consultants from the master price agreement who provided staff augmentation to complete the mandated quasi audits. Unfortunately, we are unable to provide budget to actual information in time for this meeting. This information will be communicated as soon as it becomes available. The following amounts were billed to the agency for reimbursement for services rendered and recorded as a receivable.

Costs and related recoveries associated with DHS Fraud and DOT Audits

Agency	Billed out	Recovered	Percent
DOT	\$ 651,691	\$ 0	0%
DHS	\$ 649,293	\$ 0	0%
Total	\$ 1,300,984	\$ 0	

Appendix 1 – Final Audit Reports Issued Summary

Auxiliary/Business Development

Rhode Island Department of Education, Davies Vocational School: Management does not consistently consider the strategic plan when implementing changes. Segregation of duties related to student accounts' accounting requires improvement and strengthening. Bank account reconciliations are not reviewed or approved. Purchasing, Student Accounts, and Strategic Planning policies and procedures should be improved and updated.

Department of Corrections, Health Services Program: The program discharge and planning policies and procedures did not exist. There were no Medicaid applications or informational services available to those inmates who were to be discharged to receive information about benefits and programs available. The staff approving the service vendor invoices did not know the rate structure of this vendor contract.

Department of Health, State Health Laboratories and Medical Examiner: We found all controls adequate and all risks properly identified and addressed.

Department of Labor and Training, Division of Injured Workers Services: The oversight of this division was weak. There were no reportable performance metrics for the Division. Controls over personally identifiable information and confidential information did not exist. There was no structured organization of fraud investigation work or justification of the full time FTEs within the education unit. The Division did not enforce penalties for those that failed to submit required injury reports as permitted by law.

Department of Transportation, Payroll Practices: Processes for payroll did not have adequate controls to properly reflect actual leave time or overtime charged. Payroll was not properly allocated to the correct grant or project code resulting in over/under charging funding source. Half of the Department prepares a paper timesheet while the remainder use Oracle Timesheet module. Electronic signatures are not utilized resulting in all employees printing their weekly timesheet and signing it.

Department of Transportation, Transparency Reporting Compliance: The Department is required to provide quarterly transparency reports about the Rhode works projects and updates on key accomplishments during the past quarter. The reports are not efficiently or accurately completed. The Department is not fully using the VueWorks Asset Management and Mobile System because not all staff are properly trained. The data input into this system is not monitored nor discrepancies resolved.

Financial Controls

Office of Energy Resources, Regional Greenhouse Gas Initiative: Financial controls are weak and require attention. DEM did not spend the funds in accordance with program rules, purchasing, receipt and contract oversight and controls should be strengthened. There is no MOU between DEM and OER to distinguish responsibilities of program operations and oversight resulting in redundancies and incorrect cost allocations.

Office of the Secretary of State, Controls Over Cash Receipts: Agency controls over cash could be strengthened by ensuring assets are safeguarded, filing fees and other transactions processed are reconciled to RIFANS and enhancing the review of journal entries.

Rhode Island Department of Education, School for the Deaf: In-state tuition rate calculations are not supported or documented. Revenues attributable to "additional services" are not deposited to a restricted revenue account as stipulated by state law. Deposits are not made timely and lease agreements do not protect the State from legal liability.

University of Rhode Island, Athletics Office: The office does not consistently comply with the University's procurement policies and procedures. In-state travel reimbursements, vehicle rentals, and ticket policies are unclear or not consistently applied.

Legislative Mandate

Department of Administration

- Financial Integrity and Accountability Report

Quasi-Public Audits

Capital Center Commission: Agency did not comply with all requirements of the Quasi Transparency Act or the Open Meetings law. It also provided charitable donations without prior Board approval.

Commerce Corporation: Agency did not have required information posted to the website as required by the Quasi Transparency Act. Employee expense reimbursements were not adequately supported or documented prior to payment. Incentive programs lacked: an integrated technology solution to facilitate internal/external program review; comprehensive policies and procedures; and monitoring of recipients to targets.

Rhode Island Public Transit Authority: Complied with all Quasi Public Transparency Act disclosures. Bargaining unit contract prohibits the agency to utilize para-transit part time employees in the regular route scheduling to reduce costs by reducing the over reliance on overtime. Additional full-time drivers should be hired to reduce the need for senior employees to work a seventh day at double time rate.

Vendor Compliance Audits

Indirect Cost Rate Reviews of 36 RIDOT vendors

Atlantic Abatement Controls, LLC

Blackstone Valley Youth and Family Collaborative Inc.

CDR Maguire

Gordon Archibauld LLC

Jacobs Engineering Inc.

Logisticare LLC

Rhode Island Analytical Inc.

Seastreak LLC

Appendix 2 – Proposed Fiscal 2019 Audit Plan

Performance Audit Unit: Annual Plan

Agency Description	Program Description	Risk Rating	Auditable	2019 Scheduled		COMMENTS	NOTES
DEPARTMENT OF ATTORNEY GENERAL	Criminal	4.27	Y	Y	1000	There is a large fluctuation in the finding for the criminal division Attributable to construction project	OIA will preform an audit of the construction project
DEPARTMENT OF BEHAVIORAL HEALTHCARE, DEVELOPMENTAL DISABILITIES AND HOSPITALS	Hospital & Community System Support	4.09	Y	Y	1800	The Hospital Is undergoing a management reorganization	The process for the authorization approval and assignment of overtime will be reviewed
ELEMENTARY AND SECONDARY EDUCATION	Metropolitan Career and Technical School	4.09	Y	Y	1200		Review of the financial management of the school similar to our recent review of Davies School
DEPARTMENT OF REVENUE	Municipal Finance	4.09	Y	Y	1200		Calculation of State aid and operational efficiencies
DEPARTMENT OF HUMAN SERVICES	Child Support Enforcement	4.00	Y	Y	1800		Review of collection processes
EXECUTIVE OFFICE OF COMMERCE	Economic Development Initiatives Fund	3.91	Y	Y	1200		Review of the initiatives monitoring process
DEPARTMENT OF ADMINISTRATION	Construction Permitting, Approvals and Licensing	3.91	Y	Y	1200		Review of the process post reorganization
DEPARTMENT OF HEALTH	Customer Services	3.73	Y	Y			Review of the customer service function for timeliness and availability
DEPARTMENT OF LABOR AND TRAINING	Workforce Regulation and Safety	3.73	Y	Y			
UNIVERSITY OF RHODE ISLAND	URI Education and General	2.82	Y	Y	800	Review of Supplemental payroll	
COMMUNITY COLLEGE OF RHODE ISLAND	CCRI Education and General	2.45	Y	Y	600	Review of Supplemental payroll	
RHODE ISLAND COLLEGE	RIC Education and General	1.91	Y	Y	600	Review of Supplemental payroll	
Quasi Audit Oversight	Mandated		Y	Y	100		

Continuous Audit Unit: Quarterly Plan

Vendor Audit selections for 1Q19

RIDOT Engineering Consultants

Jacobs Engineering

CDM Smith

RIDOT Indirect Cost Rates

AI Engineers, Inc.

Alta Planning + Design

Applied Bio-Systems

Archaeological & Historical Services, Inc. (a.k.a. AHS, Inc.)

Beta Group, Inc. (formerly Beta Engineering, Inc.)

Bryant Associates, Inc.

Caputo & Wick, Ltd.

CDM Smith

CDR Maguire, Inc. (a.k.a. Maguire Group, Inc.)

Commonwealth Engineers

Dewberry

ECC Corporation

Fitzgerald & Halliday, Inc.

Garofalo & Assoc., Inc.

McMahon Associates (prime)

Modjeski and Masters, Inc.

Pare Engineering Corp.

Parsons/Parsons Trans. Group, Inc.

Paul B. Aldinger & Assoc., Inc. (sub)

Prime AE Group, Inc. (formerly Prime Engineering, Inc.)

Rachel Moran Engineering, Inc.

Stantec

Toole Design Group

Turino Group Inc. (formerly Plexus Corp.)

Vanasse Hangen Brustlin, Inc.

WSP USA, Inc.

DCYF Providers

Blackstone Valley Youth & Family Collaborative

Groden Center