State of Rhode Island
and Providence Plantations

Single Audit Report

FISCAL YEAR ENDED JUNE 30, 2018

Dennis E. Hoyle, CPA, Auditor General

Office of the Auditor General

General Assembly

State of Rhode Island and Providence Plantations

Office of the Auditor General
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April 1, 2019

FINANCE COMMITTEE OF THE HOUSE OF REPRESENTATIVES

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY,

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS:

I am pleased to submit the State's ***Single Audit Report*** for the fiscal year ended June 30, 2018. This audit was required by both state law (sections 22-13-4 and 35-7-10 of the General Laws) and the federal Single Audit Act. The audit was conducted in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). As required, this report is submitted to the Federal Single Audit Clearinghouse for distribution to federal funding agencies.

The *Single Audit Report* includes our reports on (1) the basic financial statements of the State of Rhode Island, (2) internal control over financial reporting and on compliance and other matters, and (3) compliance with requirements applicable to each major federal program and on internal control over compliance. A detailed Schedule of Expenditures of Federal Awards is also included as outlined in the Table of Contents.

Findings and related recommendations that are required to be reported in the *Single Audit Report* are included in the Schedule of Findings and Questioned Costs. These include financial statement related findings and those related to the administration of federal programs.

The State's management has prepared a corrective action plan addressing each finding, which is included in *Section E* of this report. The status of prior year findings has also been prepared by the State and is included herein in *Section F*.

The *Single Audit Highlights* section on the following pages summarizes key financial statement findings and findings related to the administration of federal programs. Key statistics about the total amount of federal assistance received by the State of Rhode Island in recent years and the federal programs audited in fiscal 2018 as major programs are also summarized.

I would like to express our appreciation to the many individuals that cooperated with and assisted us in the conduct of our audit.

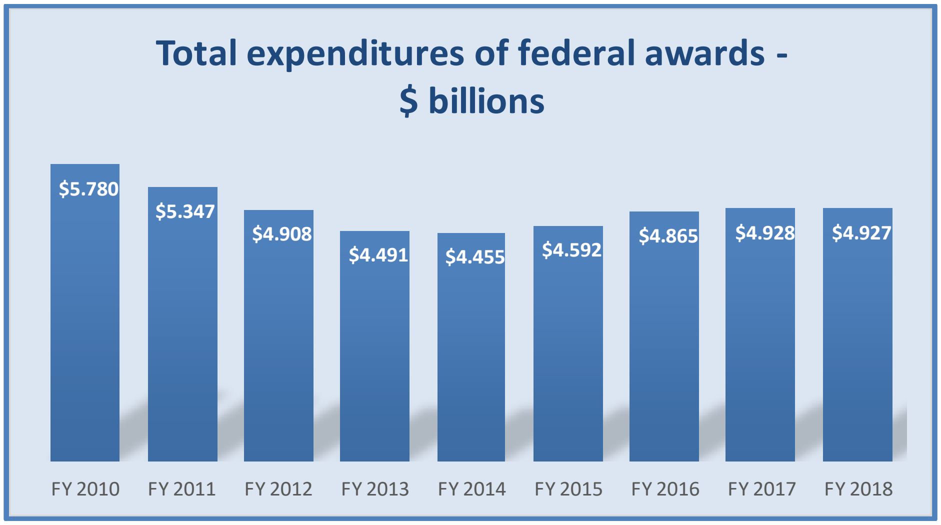
Respectfully submitted,

Dennis E. Hoyle, CPA
Auditor General

State of Rhode Island – Fiscal 2018 – Single Audit Highlights

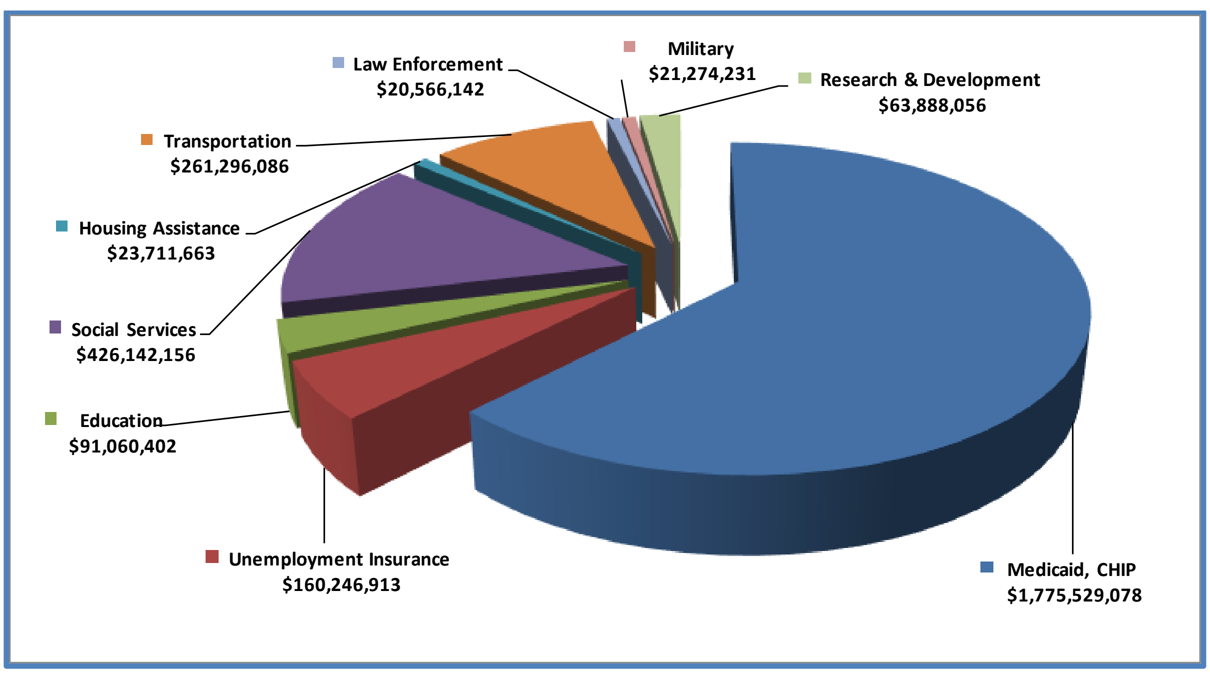
The annual Single Audit is required by federal law and regulation as a condition of continued federal assistance. The report includes the State's financial statements, a detailed schedule of federal award expenditures and our reports outlining internal control deficiencies and noncompliance relating to financial reporting and the administration of federal programs.

Federal funding represents approximately 40% of the State's General Fund expenditures and is the State's second largest revenue source. The graph below depicts the changes in total expenditures of federal awards as reported in the State's *Single Audit Reports* for fiscal years 2010 to 2018. The general decrease in aggregate federal funding in years 2010 through 2014 is largely due to the phase-out of federal stimulus funding (American Recovery and Reinvestment Act) which began in fiscal year 2009 but resulted in significant expenditures in 2010 and 2011. More recently, reductions in federally insured student loan balances and unemployment insurance benefits are offset by increases in Medicaid funding.



Federal assistance consists of both direct cash and noncash awards (e.g., loan and loan guarantee programs and donated food commodities). Federal assistance is received under a wide variety of more than 450 individual programs. Many programs are jointly financed with federal and state funding. Medicaid is the single largest program with fiscal 2018 expenditures totaling approximately $2.8 billion - the federal government shared $1.7 billion of that cost. Consistent with federal guidelines, we tested 58% of the total expenditures of federal awards as major programs following criteria established in the federal Uniform Guidance. Major program expenditures are summarized in the chart below.

Fiscal 2018 Federal Award Expenditures Tested as Major Programs - Summarized by Program Type



The Single Audit Report includes 78 findings as summarized in the following table.

Summary of findings included in the 2018 *Single Audit Report*			
	Primary government	Component units	Total
Findings related to the financial statements			
Material weaknesses in internal control	6	1	7
Significant deficiencies in internal control	27	2	29
Material noncompliance		1	1
Findings related to the administration of federal programs			
Material noncompliance / material weakness in internal control	9		9
Material weaknesses in internal control	9	2	11
Significant deficiencies in internal control	15	3	18
Noncompliance/questioned costs only/other matters	2	1	3
Total	**68**	**10**	**78**

Findings Summary

Financial Statement Findings

Weaknesses identified in the State's internal control over financial reporting, result from our annual audit of the State's financial statements for the year ended June 30, 2018. The State's management has responsibility for, and maintains internal control over, financial reporting. *Government Auditing Standards* require that we communicate deficiencies in internal control over financial reporting based on our audit.

The State's management has implemented corrective action on some findings previously reported. Incremental progress is also noted in our findings when recommendations have not been fully implemented but corrective actions are underway.

The State lacks a strategic plan to (1) coordinate needed replacements/enhancements to its key statewide financial systems and (2) ensure that critical legacy financial systems, such as the payroll system, which pose a business continuity risk, will be available to support State operations. Because the State has opted to utilize various independent software solutions, the plan is critically important.

Without a comprehensive plan, there is substantial risk that the intended integration of various components may not be achieved. The State has already experienced such integration issues and halted work on a time and effort reporting system and a grants management system. The State had expended nearly $3 million on those projects.

Management should propose an additional dedicated funding source for the Information Technology Investment Fund to support the anticipated enhancements to critical financial and administrative computer systems identified through implementation of the strategic plan.

The State can enhance its communication and implementation of a statewide approach to design, document, and monitor its internal control policies and procedures following the principles contained in the revised internal control framework. The State's system of internal controls is intended to safeguard public resources and support accurate financial reporting.

The complexity of Medicaid program operations adds to the challenge of accurately accounting for all Medicaid program related financial activity within the State's financial statements. This complexity results from new federal regulations, various State initiatives, and additional challenges resulting from its implementation of the RIBridges eligibility system. Medicaid is the State's single largest program activity - representing nearly 40% of the annual budgeted outlays of the State's General Fund. Consequently, the financial aspects of this program are material to the State's financial reporting objectives.

The State's Office of Management and Budget (OMB) has not fully addressed all the required functionalities outlined in the General Laws regarding oversight of federal grants within the State.

Responsibility for monitoring the investment activity and other compliance aspects of funds on deposit with a fiscal agent (trustee) can be improved and should be vested with the Office of the General Treasurer.

The Executive Office of Health and Human Services (EOHHS) authorized more than $200 million in system payouts and manual disbursements in fiscal 2018, representing provider advances, payments to managed care organizations for contract settlements and/or non-claims based financial activity, and other program disbursements. The reporting and internal control processes relating to these types of disbursements are manual in nature and external to other established control procedures. Such amounts are not easily identified or quantified by the Medicaid Management Information System (MMIS).

Monitoring of escrow liability account balances needs to be improved and the establishment of these accounts should be more limited to ensure they are only used when that is the proper accounting for such funds.

Controls can be enhanced within the accounting system to better track the distinct components of fund balance required for presentation in the fund level financial statements.

Policies need to be developed and implemented to guide decision-making regarding what types of costs should be paid from the newly established Information Technology internal service fund.

Overall, the State has not sufficiently addressed information technology (IT) security risks, an increasing concern given the State's very complex computing environment. The State needs to ensure its IT security policies and procedures are current, well communicated and complied with. Assessments of compliance for all critical IT applications have not been performed - systems deemed to pose the most significant operational risk must be prioritized.

The State does not follow uniform enterprise-wide program change control procedures for the various IT applications operating within State government. This increases the risk that unauthorized or inappropriate changes could be made to IT applications without detection.

Processing functionalities within the Division of Taxation's STAARS system result in a volume of returns held in suspense pending resolution. This complicates financial reporting estimates due to the uncertain effect of returns that had not fully processed at fiscal year end.

Historical data used to support significant financial reporting estimates for tax revenues should be reassessed periodically to ensure continued validity – this is particularly important with more current data emanating from the STAARS system.

The Division of Taxation engaged its system development vendor to perform a series of data-matches in order to increase billings for unpaid taxes and related collections (revenue). The cost for these specific tasks were reflected in the accounting system as reductions of revenue rather than expenditures.

The Division of Taxation can enhance policies and operating procedures to restrict access to personally identifiable information and to ensure the effectiveness of the business continuity plan.

STAARS system user access rights need to be assessed and tailored to ensure access is consistent and appropriate with each employee's responsibilities.

The Department of Transportation (RIDOT) can enhance controls over the presentation of fund balance components within the IST fund and also enhance the accuracy of transportation infrastructure assets identified for inclusion in the State's financial statements.

We found that controls to ensure accurate and consistent reporting of investment expenses within the pension trusts require enhancement at both the custodian and Employees' Retirement System management level.

The resources necessary to effectively manage and administer the OPEB System to ensure all System functions are met and adequately controlled should be assessed. A unified database or computer application is needed to maintain membership data for each of the State's OPEB plans. This would improve controls over the administration of the benefit programs and the process to accumulate data necessary for periodic actuarial valuations of the OPEB plans for both funding and accounting purposes.

Federal Program Findings

2018 Major Programs
Supplemental Nutrition Assistance Program Cluster (SNAP)
Child Nutrition Cluster
National Guard Military Operations and Maintenance Projects
Home Investment Partnerships Program
Equitable Sharing Program
Unemployment Insurance
Highway Planning and Construction Cluster
Federal Transit Cluster
Special Education Cluster
Substance Abuse and Mental Health Services – Projects of Regional and National Significance
Temporary Assistance for Needy Families (TANF) Cluster
Low-Income Home Energy Assistance Program (LIHEAP)
Child Care and Development Fund (CCDF) Cluster
Children's Health Insurance Program (CHIP)
Medicaid Cluster
Block Grants for Prevention and Treatment of Substance Abuse
Research and Development Cluster

The State experienced continued compliance challenges for federally-funded human service programs due to incomplete or ineffective RIBridges system functionalities. RIBridges is the integrated eligibility/benefit system used to administer multiple federal assistance programs. As a result, we reported material noncompliance for several compliance provisions related to the State's ability to comply with federal requirements for the Medicaid, CHIP, TANF, SNAP, and CCDF program clusters.

The State needs to improve its system security oversight over systems used to administer its federally funded human services programs by implementing a well-defined and coordinated approach for the multiple agencies vested with this responsibility.

Medicaid and Children's Health Insurance Programs – Due to the limited operation and effectiveness of controls over eligibility for the Medicaid and CHIP programs during fiscal 2018, the State did not comply with the Medicaid and CHIP program eligibility requirements, collectively.

The State specifically did not materially comply with eligibility requirements due to collective noncompliance regarding adequately documenting and determining recipient eligibility, redetermining eligibility timely, and validating key eligibility data elements using electronic interfaces designed within RIBridges.

Data discrepancies between the systems used to determine Medicaid and CHIP eligibility (RIBridges) and the claims/capitation payment system (MMIS) continued to negatively impact controls to ensure that payments were made only on behalf of eligible individuals during fiscal 2018.

The effectiveness of the Medicaid Eligibility Quality Control (MEQC) program is diminished by the continued RIBridges functional limitations. The MEQC Unit continues to experience challenges in obtaining the information needed to verify eligibility determinations made by RIBridges. A significant volume of systemic issues identified by MEQC processes are currently pending corrective action in RIBridges.

In many instances, particularly for Medicaid applicants requiring long-term care services and supports, the State is not complying with timely determination of Medicaid eligibility requirements. Processing Medicaid applications for long-term care services in RIBridges continues to be problematic resulting in significant delays in determining eligibility and necessitating advances to long-term care service providers.

EOHHS lacks strong oversight procedures regarding fiscal monitoring and contract settlement for its managed care organizations (MCOs). Capitation payments to MCOs represent nearly 60% of Medicaid benefit expenditures. EOHHS needs to develop a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled each contract period. More stringent audit and financial monitoring procedures should be employed.

EOHHS needs to reassess all activities considered surveillance utilization review services (SURS) performed within the Medicaid program to comply with federal regulations and amend the State Plan to accurately reflect the State's current practices.

TANF – Due to the limited operation and effectiveness of controls over eligibility for the TANF program during fiscal 2018, the State did not comply with the TANF eligibility requirements, collectively.

Implementation of the RIBridges eligibility system affected the availability and reliability of data needed to prepare timely and accurate federal reports.

The RIBridges system did not prompt employment and career advisors to update/develop new work participation plans for clients upon the expiration of an existing plan.

The State did not comply with the Income Eligibility and Verification System requirements.

SNAP – The RIBridges eligibility system limited the Department of Human Services' (DHS) ability to submit timely and accurate federal reports required for the SNAP program.

The RIBridges eligibility system does not currently meet all the functional requirements of an automated data processing system as outlined in federal SNAP regulations. The system is also not producing reports to allow daily reconciliation of electronic benefits authorized and disbursed and to ensure accurate and timely completion of federal reports.

Child Care and Development Fund Cluster Programs – The RIBridges eligibility system lacked effective income validation controls during fiscal 2018 which impacted program eligibility determinations and the amount of required parent cost-sharing amounts.

LIHEAP – DHS must improve controls to ensure compliance with the period of performance requirement and to improve related federal reporting for such requirements. DHS can also improve its monitoring of subrecipient cash balances and documentation supporting the annual report on households assisted by LIHEAP.

Unemployment Insurance – The Department of Labor and Training (DLT) did not make the necessary changes to its system to allow for the imposition of penalties on overpayments due to fraud, and to prohibit relief from charges to an employer's UC account when the overpayment was the result of the employer's failure to respond timely or adequately to a request for information.

Highway Planning and Construction – RIDOT should further enhance its quality assurance program to ensure that required materials tests are performed and documented consistent with federal regulation and RIDOT policy.

Child Nutrition Cluster – The Department of Education (RIDE) needs to increase efforts to comply with the requirement to perform administrative reviews of all School Food Authorities every 3 years.

Substance Abuse and Mental Health Service Programs – The Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH) can improve its controls over federal reporting to ensure that substance abuse programs expenditures are reported accurately and consistently with federal reporting requirements.

BHDDH can enhance its monitoring of subrecipients as required by federal program requirements and improve its controls over the process to demonstrate and document that it complied with maintenance of effort requirements for the Substance Abuse Block Grant.

BHDDH can improve its controls over cash drawdown procedures to ensure compliance with federal cash management requirements.

Equitable Sharing Program – The State can enhance uniform procedures to ensure compliance with the reporting requirements of the Equitable Sharing Program when preparing the annual Equity Sharing Agreement and Certification (ESAC) Report.

A Corrective Action Plan (Section E), prepared by the State's management, is included in the report, which describes planned corrective actions and a timetable for implementation. A Summary Schedule of Prior Audit Findings (Section F) is also included, which reports the status of findings from prior audits.

Condensed Table of Contents

Condensed Table of Contents
(continued)

Financial Statements

Basic Financial Statements

Table of Contents

Basic Financial Statements

Table of Contents (continued)

Page

REQUIRED SUPPLEMENTARY INFORMATION

Basic Financial Statements

Table of Contents (continued)

Page

REQUIRED SUPPLEMENTARY INFORMATION (continued)

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INDEPENDENT AUDITOR'S REPORT

Finance Committee of the House of Representatives
Joint Committee on Legislative Services, General Assembly,
State of Rhode Island and Providence Plantations:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Rhode Island and Providence Plantations (the State), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of:

- the Tobacco Settlement Financing Corporation, a blended component unit which represents 1% of the assets and deferred outflows and 1% of the revenues of the governmental activities and 1% of the assets and 2% of the revenues of the aggregate remaining fund information;
- the Convention Center Authority, a major fund, which also represents 27% of the assets and deferred outflows and 3% of the revenues of the business-type activities;
- the HealthSource RI Trust, an agency fund, the Ocean State Investment Pool, an investment trust fund, and the Rhode Island Higher Education Savings Trust, a private-purpose trust fund, which collectively represent 37% of the assets and 21% of the revenues of the aggregate remaining fund information; and
- all the component units comprising the aggregate discretely presented component units.

The financial statements for these entities were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the governmental activities, the business-type activities, the aggregate discretely presented component units, the Convention Center Authority major fund, and the aggregate remaining fund information, are based solely on the reports of the other auditors.

Finance Committee of the House of Representatives
Joint Committee on Legislative Services

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As described in Notes 1(T), 15, and 18(G) – the State implemented Governmental Accounting Standards Board Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in fiscal 2018 which resulted in restatement of beginning net position of the governmental activities, business-type activities, Rhode Island Lottery (major fund) and discretely presented component units.

As described in Note 13 – the State disclosed various contingencies related to the implementation of its Unified Health Infrastructure Project (UHIP) / RIBridges computer system.

As described in Note 2 – the fair values of certain investments included within the fiduciary funds - pension and other employee benefit trusts, which represent 24% of the assets of the pension and other employee benefit trusts and 14% of the assets of the aggregate remaining fund information, have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or general partners.

Our opinions are not modified with respect to these matters.

Finance Committee of the House of Representatives
Joint Committee on Legislative Services

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages A-4 through A-28, the Budgetary Comparison Schedules on pages A-173 through A-177, and information about the State's pension plans and other postemployment benefit plans on pages A-178 through A-215 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

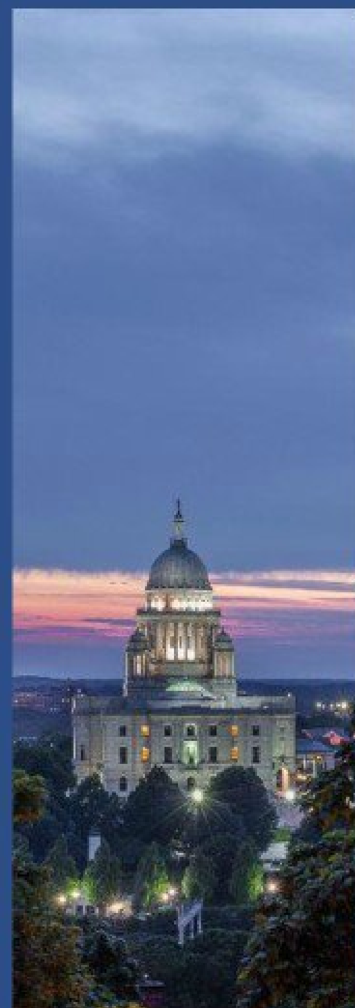
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have issued our report dated December 28, 2018 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

Dennis E. Hoyle, CPA
Auditor General

December 28, 2018

Management's Discussion and Analysis



State of Rhode Island

Fiscal Year Ended
June 30, 2018

Management's discussion and analysis (MD&A) provides a narrative overview and analysis of the financial activities of the State of Rhode Island (State) for the fiscal year ended June 30, 2018. The MD&A is intended to serve as an introduction to the State's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The MD&A is designed to (a) assist the reader in focusing on significant financial matters, (b) provide an overview of the State's financial activities, (c) identify any material changes from the original budget, and (d) highlight individual fund matters. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the State's financial condition, the financial statements, notes and required supplementary information which follow the MD&A should be reviewed in their entirety.

Financial Highlights - Primary Government

Government-wide Financial Statements

- **Net Position:** The total assets plus deferred outflows of resources of the State was less than total liabilities plus deferred inflows of resources on June 30, 2018 by $(374.2) million. This amount is presented as "net position (deficit)" on the Statement of Net Position for the Total Primary Government. Of this amount, $(4.7) billion was reported as unrestricted net position (deficit), $1.0 billion as restricted net position, and $3.3 billion as net investment in capital assets.

  Effective July 1, 2017 the State adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB).* As required by Statement No. 75, the State restated its beginning net position to record the Net OPEB Assets and Liabilities for the OPEB plans it has funding responsibility for. This restatement reduced the net position for governmental activities at July 1, 2017 by $467 million and the net position for business-type activities by $3.6 million. Please see the Notes to Basic Financial Statements for a complete discussion of the effect of Statement No. 75 and the disclosures required by the standard.

- **Changes in Net Position:** The net increase in the primary government's net position in fiscal year 2018 of $221.2 million which reduced the overall net deficit reported by the State at June 30, 2018 was mostly attributable to the following factors:

  - Governmental activities experienced continued revenue growth in fiscal 2018. Tax revenue increased by $166.0 million over fiscal 2017. This was primarily attributable to increases in personal income, general business and sales and use taxes as a result of the positive economic environment.

  - Total governmental activities expenses increased by $175.6 million in fiscal 2018. Expenses increased in almost all functional categories. The most notable increases were in human services and education.

  - Human services expenditures increased primarily because of spending on the Unified Health Infrastructure Project (UHIP), the State's new human services eligibility system, which increased by almost $25 million. Also, spending in the Medicaid program increased due to continued general growth in healthcare costs. Finally, in the human services category, new federal Medicaid funding for the Health Systems Transformation Project resulted in increased spending of $13.6 million.

  - Expenditures in the Education category were higher primarily because of the continued transition to the Education Funding Formula, which required over $44 million in additional funding in fiscal 2018.

  - Expenditures in the Public Safety category decreased primarily as a result of a pension expense credit of $96.5 million relating to the measurement of the net pension liability for certain retired members of the State Police. This credit results from a change in actuarial assumption attributable to the establishment of an advance funded trust that replaced the previous plan which was funded on a pay-as-you-go basis. According to GASB standards, the discount rate for advance funded plans used in actuarial calculations of net pension liability is typically higher than the discount rate used for pay-as-you- go plans. Higher discount rates result in lower pension expense. The discount rate for the plan increased from 2.85% to 7.00% with the establishment of the advance funded trust, which resulted in a large pension credit in fiscal 2018. GASB standards require the immediate recognition of this change in the discount rate assumption since the plan is a closed plan that is comprised entirely of retired employees. See Note 14 for additional information about this plan.

• Business-type activities experienced an increase in net position of $86.6 million during the fiscal year. This was mostly attributable to the Employment Security Fund operating at an $86.6 million surplus in fiscal 2018. The Lottery also contributed approximately $365.0 million in resources to fund governmental activities in fiscal year 2018, an increase of $2.3 million over fiscal 2017.

Fund Financial Statements

Governmental Funds

- The State's governmental funds reported a combined ending fund balance of $1,296.6 million, a decrease of $71.7 million in comparison with the restated previous fiscal year. This is primarily a result of the decrease in the fund balance of the Intermodal Surface Transportation (IST) Fund of $39.1 million, which was due to a significant increase in expenditures for transportation related projects as the pace of bridge and highway improvements being made under the State's RhodeWorks initiative picked up significantly this year.

- As of June 30, 2018, the State’s General Fund reported an ending fund balance of $358.7 million, a decrease of $31.3 million as compared to the prior year.

- The most significant source of General Fund revenues, taxes, increased by $158.6 million as compared to fiscal 2017. Personal income, sales and use and general business taxes all reflected healthy increases from the prior fiscal year due to a number of factors including the improving economic climate and greater number of Rhode Islanders employed.

- On the expenditure side, total general fund expenditures were $159.0 million greater than in fiscal 2017 due to greater spending across a number of categories the most significant of which are discussed below.

- There was an increase of $97.2 million in the Human Services function which was attributable to several factors. Spending on the Unified Health Infrastructure Project (UHIP), the State’s new human services eligibility system, increased by almost $25 million. Spending on the Medicaid program increased due to continued general growth in healthcare costs. Finally, new federal Medicaid funding for the Health System Transformation Project resulted in increased spending of $13.6 million.

- Expenditures for Education rose by $54.0 million as a result of the continued transition to the Education Funding Formula, which required almost $44.3 million in additional funding in fiscal 2018 compared to fiscal 2017.

- The State fully funded its State Budget Reserve and Cash Stabilization Account (the Reserve) within the General Fund in the amount of $198.5 million as required by Section 35-3 of the RI General Laws.

Proprietary Funds

- The Rhode Island State Lottery transferred $365.0 million to the General Fund in support of general revenue expenditures during the fiscal year, an increase of $2.3 million in comparison with the previous fiscal year. Sales of traditional lottery products were up 3.4% percent year-over-year. Changes to the Mega Millions® game, including an increase in ticket price, as well as the introduction of new high price point instant games significantly contributed to the overall increase in traditional lottery games revenue. This increase in the sales of traditional lottery products was offset by a decline in video lottery net terminal income revenues of 0.2% percent in fiscal 2018 due to increased competition from a nearby Massachusetts casino. Net revenues from the operation of table games at Twin River increased by 4.1% percent in fiscal 2018 due to the addition of 6 tables in July 2017 and continued targeted marketing efforts.

- The Employment Security Fund ended the fiscal year with a net position of $470.0 million, an increase of $86.6 million from the prior fiscal year. This favorable change is principally attributable to an excess of tax revenue over benefits paid due primarily to the improving employment level in the State.

- The Rhode Island Convention Center Authority ended the fiscal year with a net position deficiency of $55.2 million, a deficit increase of $437.0 thousand compared with the prior year. The Authority has historically had a net position deficiency, because the amount of debt related to capital assets has exceeded the net book value of the capital assets and because the repayment term for the debt is generally longer than the depreciable life of the assets.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements include three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements provide a broad view of the State's finances. The statements provide both short-term and long-term information about the State's financial position, which assist in assessing the State's financial condition at the end of the year. These financial statements are prepared using the accrual basis of accounting, which recognizes all revenues and grants when earned, and expenses at the time the related liabilities are incurred.

- The **Statement of Net Position** presents all of the government's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as "net position." Over time, increases and decreases in the government's net position may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

- The **Statement of Activities** presents information showing how the government's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods -- for example, uncollected taxes and earned but unused vacation leave. This statement also presents a comparison between direct expenses and program revenues for each function of the government.

Both of the government-wide financial statements have separate sections for three different types of activities:

- **Governmental Activities:** The activities in this section represent most of the State's basic services and are generally supported by taxes, grants and intergovernmental revenues. The governmental activities of the State include general government, human services, education, public safety, natural resources, and transportation. The net position and change in net position of the internal service funds are also included in this column.

- **Business-type Activities:** These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the State include the operations of the Rhode Island Lottery, Rhode Island Convention Center Authority and the Employment Security Trust Fund.

- **Discretely Presented Component Units:** Component units are entities that are legally separate from the State, but for which the State is financially accountable. These entities are listed in Note 1. The financial information for these entities is presented separately from the financial information presented for the primary government.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on the individual parts of State government and report the State's operations in more detail than the government-wide financial statements. The State's funds are divided into three categories: governmental, proprietary and fiduciary.

- **Governmental funds:** Most of the State's basic services are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on spendable resources available at the end of the fiscal year. Such information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs.

  Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities in the government-wide financial statements.

  Governmental funds include the general fund, special revenue, capital projects, debt service, and permanent funds. The State has several governmental funds, of which GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* defines the general fund as a major fund. The criteria for determining if any of the other governmental funds are major funds are detailed in Note 1 C. Each of the major funds is presented in a separate column in the governmental funds balance sheet and statement of revenues, expenditures and changes in fund balances. The remaining governmental funds are combined in a single aggregated column on these financial statements. Individual fund data for each of these nonmajor governmental funds can be found in the supplementary information section of the State's Comprehensive Annual Financial Report.

- **Proprietary funds:** Services for which the State charges customers a fee are generally reported in proprietary funds. The State maintains two different types of proprietary funds -- enterprise funds and internal service funds. Enterprise funds report activities that provide supplies and services to the general public. Internal service funds report activities that provide supplies and services for the State's other programs and activities. Similar to the government-wide statements, proprietary funds use the accrual basis of accounting. The State has three enterprise funds -- the Lottery Fund, the Rhode Island Convention Center Authority (RICCA) Fund, and the Employment Security Fund. These funds are each presented in separate columns on the basic proprietary fund financial statements. The State's internal service funds are reported as governmental activities on the government-wide statements, because the services they provide predominantly benefit governmental activities. The State's internal service funds are reported on the basic proprietary fund financial statements in a single combined column. Individual fund data for these funds is provided in the form of combining statements and can be found in the supplementary information section of the State's CAFR.

- **Fiduciary funds:** These funds are used to account for resources held for the benefit of parties outside the State government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the State's programs. These funds, which include the pension and other postemployment benefits trusts, an external investment trust, private-purpose trusts and agency funds, are reported using accrual accounting. Individual fund data for fiduciary funds can be found in the supplementary information section of the State's CAFR.

Discretely Presented Component Units

Discretely presented component units are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These discretely presented component units serve or benefit those outside of the primary government. The State distinguishes between major and nonmajor component units. The criteria for distinguishing between major and nonmajor component units are discussed in Note 1 B.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the fiduciary funds financial statements.

Required Supplementary Information

The basic financial statements and accompanying notes are followed by a section of required supplementary information, including information concerning the State's pension and other postemployment benefit obligations. This section also includes a budgetary comparison schedule for each of the State's major governmental funds that have a legally enacted budget.

Other Supplementary Information

Other supplementary information, which follows the required supplementary information in the State's CAFR, includes the combining financial statements for nonmajor governmental funds, internal service funds and fiduciary funds.

Government-Wide Financial Analysis

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The State's combined net position (deficit) (governmental and business-type activities) totaled $(374.2) million at the end of fiscal 2018, compared to $(595.4) million at the end of the prior fiscal year, as restated. Governmental activities reported unrestricted net position (deficit) of $(4,702.4) million.

A portion of the State's net position reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets), less any related debt outstanding that was needed to acquire or construct the assets. The State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources.

An additional portion of the State's net position represents resources that are subject to external restrictions on how they may be used.

State of Rhode Island's Net Position as of June 30, 2018 and 2017

(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017*	2018	2017*	2018	2017*
Current and other assets	$ 2,365,680	$ 2,484,486	$ 550,828	418,353	$ 2,916,508	$ 2,902,839
Capital assets	4,298,377	4,191,448	134,409	137,724	4,432,786	4,329,172
Total assets	6,664,057	6,675,934	685,237	556,077	7,349,294	7,232,011
Deferred outflows of resources	855,400	582,620	11,606	7,094	867,006	589,714
Long-term liabilities outstanding	6,899,323	6,776,693	248,029	208,715	7,147,352	6,985,408
Other liabilities	1,205,941	1,231,220	54,053	46,714	1,259,994	1,277,934
Total liabilities	8,105,264	8,007,913	302,082	255,429	8,407,346	8,263,342
Deferred inflows of resources	182,217	153,304	935	511	183,152	153,815
Net position (deficit):						
Net investment in capital assets	3,356,040	3,212,380	(50,807)	(53,682)	3,305,233	3,158,698
Restricted	578,309	920,232	471,070	384,198	1,049,379	1,304,430
Unrestricted	(4,702,373)	(5,035,275)	(26,437)	(23,285)	(4,728,810)	(5,058,560)
Total net position (deficit)	$ (768,024)	$ (902,663)	$ 393,826	$ 307,231	$ (374,198)	$ (595,432)

*Restated.

As indicated above, the State reported a balance in unrestricted net position (deficit) of $(4.7) billion as of June 30, 2018. Two primary factors, which are discussed below, contributed to this deficit.

As required by governmental accounting standards the State recognizes the net pension liability for all of the pension plans it has funding responsibility for. In addition, beginning in fiscal 2018 the State has recognized the net other postemployment benefit (OPEB) liability (asset) for the retiree health care plans that it has funding responsibility for. Recognition of these liabilities has had a significant adverse impact on unrestricted net position. At June 30, 2018 the net pension liability related to governmental activities was $3.63 billion and the net pension liability related to business-type activities was $16.9 million. In addition, the net OPEB liability related to governmental activities was $511.6 million and the net OPEB liability related to business-type activities was $3.9 million.

Another significant contributing factor creating the deficit in unrestricted net position is the State’s use of general obligation bond proceeds (which are reported as debt of the primary government) for other than the primary government’s direct capital purposes. In these instances, proceeds are transferred to municipalities, discretely presented component units and non-profit organizations within the State to fund specific projects.

Examples of these uses of general obligation bond proceeds include, but are not limited to, the following:

- Certain transportation projects funded with bond proceeds that do not meet the State’s criteria for capitalization as infrastructure;
- Construction of facilities at the State’s university and colleges, which are reflected in the financial statements as discretely presented component units;

- Water resources projects including the acquisition of sites for future water supply resources, various water resources planning initiatives, and funding to upgrade local water treatment facilities;

- Environmental programs to acquire, develop, and rehabilitate local recreational facilities and ensure that open space is preserved;

- Historical preservation initiatives designed to protect and preserve historical buildings as well as to provide funding for cultural facilities.

Other debt that is not utilized for the State's acquisition of capital assets is as follows:

- Tobacco Settlement Asset-Backed Bonds and Accreted Interest - The Tobacco Settlement Financing Corporation (TSFC), a blended component unit, has issued Tobacco Asset-Backed Bonds that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent Decree and Final Judgment. The bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC and do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof, and the State has no obligation to satisfy any deficiency or default of any payment of the bonds. As of June 30, 2018 approximately $642.0 million of principal and $97.5 million of accreted interest are included in the State's debt.

- Historic Tax Credit Bonds - In fiscal 2009 and 2015 the R.I. Commerce Corporation (RICC), on behalf of the State, issued $150.0 million and $75.0 million, respectively, of revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The State is obligated under a Payment Agreement to make payments to the trustee. This obligation is subject to annual appropriation by the General Assembly. The proceeds of the bonds are being used to provide funds for redemption of Historic Structures Tax Credits. As of June 30, 2018, approximately $52.0 million of such bonds are outstanding.

- The State has entered into certain capital lease agreements, known as Certificates of Participation (COPS), the proceeds of which are to be used, for example, by the State's university and colleges for energy conservation projects or by local school districts to improve technology infrastructure on a state-wide basis. Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly. As of June 30, 2018, approximately $201.5 million of obligations (net) are outstanding relating to these projects.

In the above instances, the primary government records a liability for the outstanding debt, but no related capitalized asset is recorded. A cumulative deficit in unrestricted net position results from financing these types of projects through the years.

Changes in Net Position

The State's overall net position for the primary government improved by $221.2 million during fiscal 2018. Total revenues of $8,396.4 million increased by $211.5 million compared to fiscal 2017. The favorable results were aided by increased general revenues due primarily to increases in tax revenues for broad-based taxes, as well as increases in operating grants.

The State's expenses, which cover a wide range of services, increased by $182.5 million.

The most notable increases were in the human services and education categories. Human services expenditures increased primarily because of spending on the Unified Health Infrastructure Project (UHIP), the State's new eligibility system, which increased by almost $25 million. Also, spending on the Medicaid program increased due to continued general growth in healthcare costs. Finally in the human services category, new federal Medicaid funding for the Health System Transformation Project resulted in increased spending of $13.6 million.

Expenditures in the Education category were higher primarily because of the continued transition to the Education Funding Formula, which required over $44 million in additional funding in fiscal 2018. The increase in interest and other charges from fiscal 2017 to fiscal 2018 is the result of a restructuring of debt undertaken in fiscal 2016 that freed up resources to be invested in economic development programs, but deferred debt service costs to future years.

Expenditures in the Public Safety category decreased primarily as a result of a pension expense credit of $96.5 million relating to a pension plan that covers certain retired members of the State Police. The plan does not cover any active officers. This credit results from a change in actuarial assumption attributable to the establishment of an advance funded trust that replaced the previous plan which was funded on a pay-as-you-go basis. According to GASB standards, the discount rate for advance funded plans used in actuarial calculations of net pension liability is typically higher than the discount rate used for pay-as-you- go plans. Higher discount rates result in lower pension expense. The discount rate for the plan increased from 2.85% to 7.00% with the establishment of the advance funded trust, which resulted in a large pension credit in fiscal 2018. GASB standards require the immediate recognition of this change in the discount rate assumption since the plan is a closed plan that is comprised entirely of retired employees. See Note 14 for additional information about this plan.

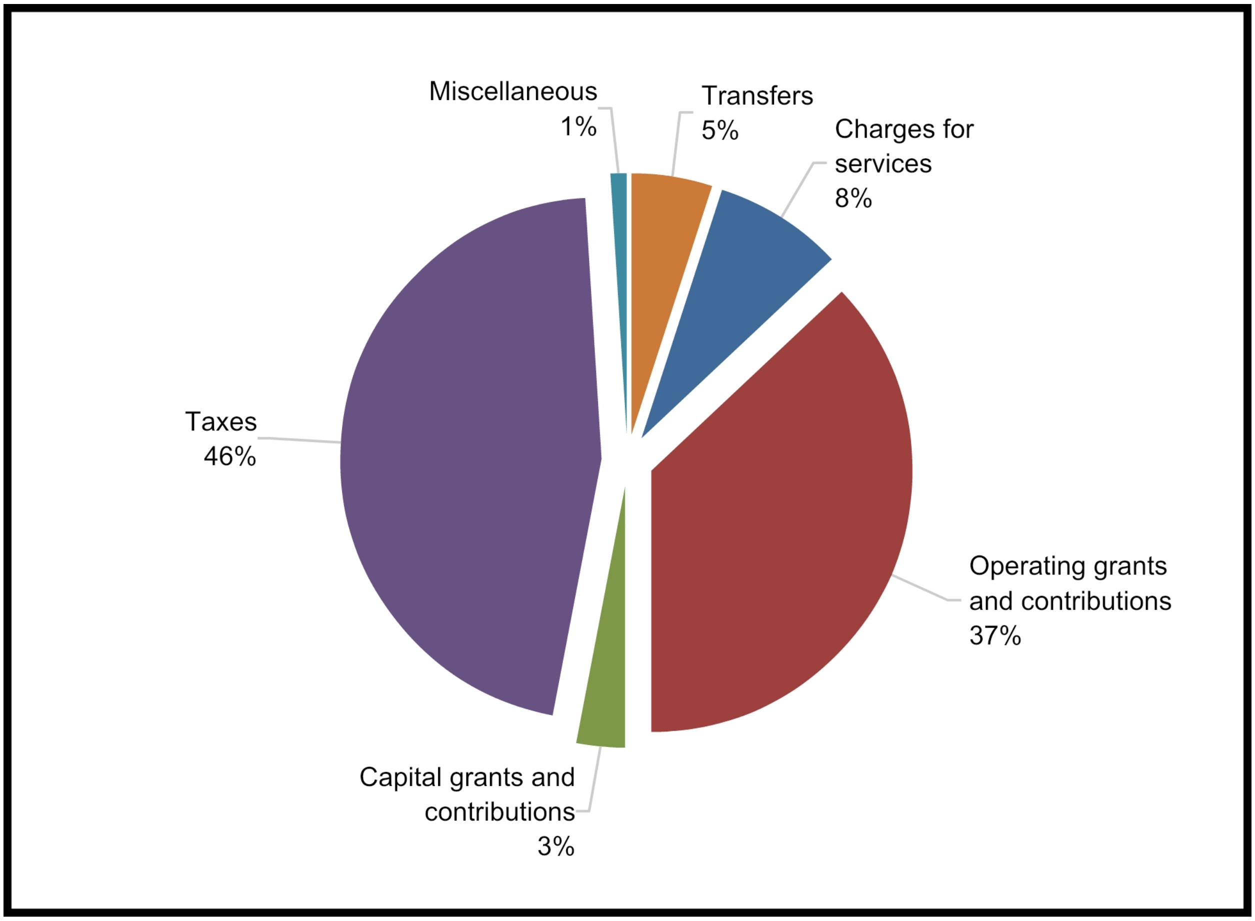
A more detailed analysis of changes in revenues and program expenses for both governmental activities and business-type activities is as follows:

State of Rhode Island's Changes in Net Position
For the Fiscal Years Ended June 30, 2018 and 2017
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	$ 641,305	$ 584,539	$ 1,142,564	$ 1,151,505	$ 1,783,869	$ 1,736,044
Operating grants and contributions	2,784,544	2,747,631	1,259	1,373	2,785,803	2,749,004
Capital grants and contributions	207,673	230,956	—	—	207,673	230,956
General revenues:						
Taxes	3,474,545	3,308,575	—	—	3,474,545	3,308,575
Interest and investment earnings	10,548	6,313	604	312	11,152	6,625
Miscellaneous	124,370	146,803	8,946	6,814	133,316	153,617
Total revenues	7,242,985	7,024,817	1,153,373	1,160,004	8,396,358	8,184,821
Program expenses:						
General government	751,362	753,011	—	—	751,362	753,011
Human services	3,965,185	3,802,311	—	—	3,965,185	3,802,311
Education	1,708,408	1,619,343	—	—	1,708,408	1,619,343
Public safety	433,815	551,000	—	—	433,815	551,000
Natural resources	97,253	90,082	—	—	97,253	90,082
Transportation	403,365	350,585	—	—	403,365	350,585
Interest and other charges	92,231	109,664	—	—	92,231	109,664
Lottery	—	—	521,594	510,302	521,594	510,302
Convention Center	—	—	52,684	50,658	52,684	50,658
Employment Security	—	—	149,227	155,672	149,227	155,672
Total expenses	7,451,619	7,275,996	723,505	716,632	8,175,124	7,992,628
Excess (deficiency) before transfers	(208,634)	(251,179)	429,868	443,372	221,234	192,193
Transfers	343,273	338,978	(343,273)	(338,978)	—	—
Change in net position	134,639	87,799	86,595	104,394	221,234	192,193
Net position (deficit) - Beginning	(448,902)	(536,701)	310,832	206,438	(138,070)	(330,263)
Cumulative effect of prior period adjustments	(453,761)	—	(3,601)	—	(457,362)	—
Net position (deficit) - Beginning, as restated	(902,663)	(536,701)	307,231	206,438	(595,432)	(330,263)
Net position (deficit) - Ending	$ (768,024)	$ (448,902)	$ 393,826	$ 310,832	$ (374,198)	$ (138,070)

Chart 1 depicts the State's sources of revenues from Governmental Activities for the fiscal year ended June 30, 2018.

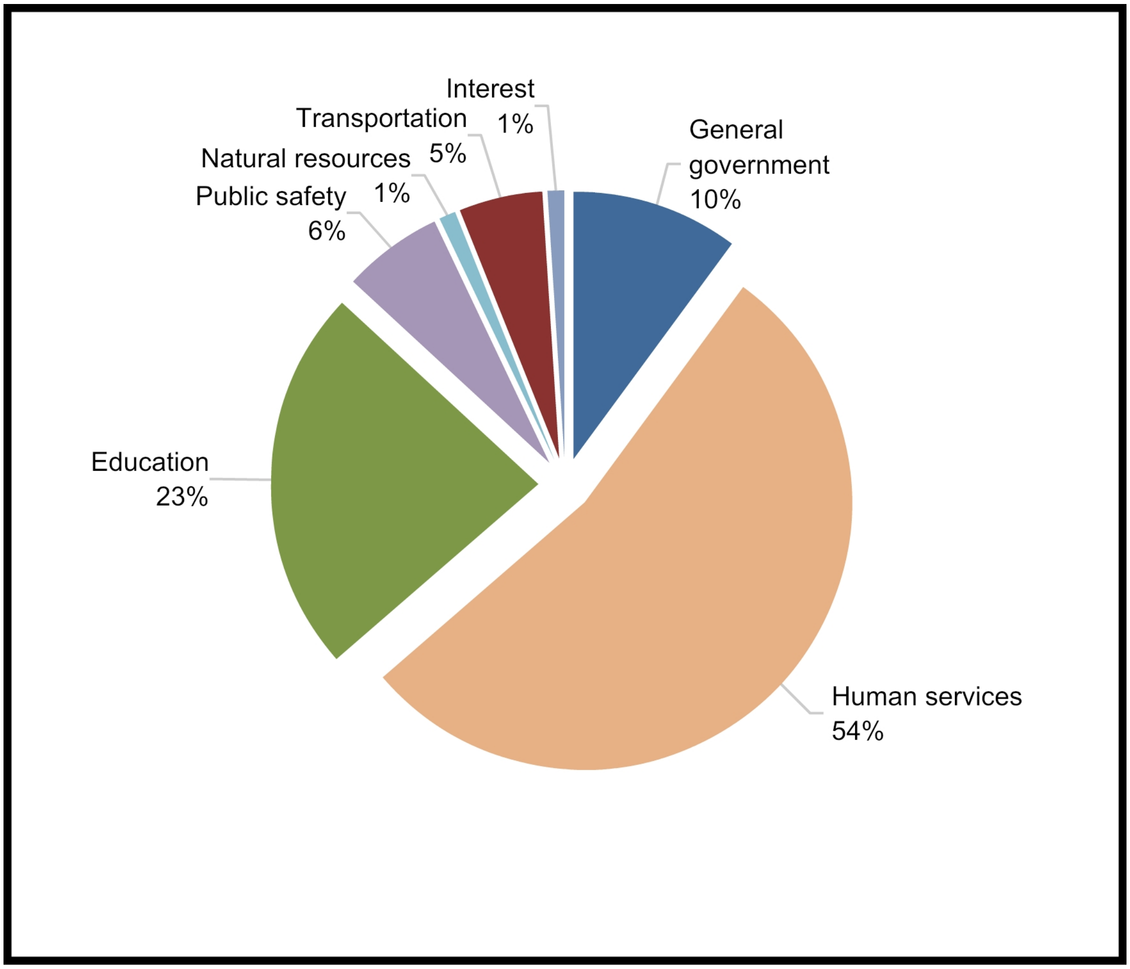
Chart 1 - Revenues and Transfers - Governmental Activities



The relative mix of revenue and transfers by source for governmental activities remained fairly constant in fiscal 2018 versus the prior fiscal year. Taxes continued to represent the largest source of revenue at 46% of the total while operating grants and contributions represented 37% of the total in fiscal 2018.

Chart 2 depicts the purposes for which program expenses related to Governmental Activities were expended during the fiscal year ended June 30, 2018.

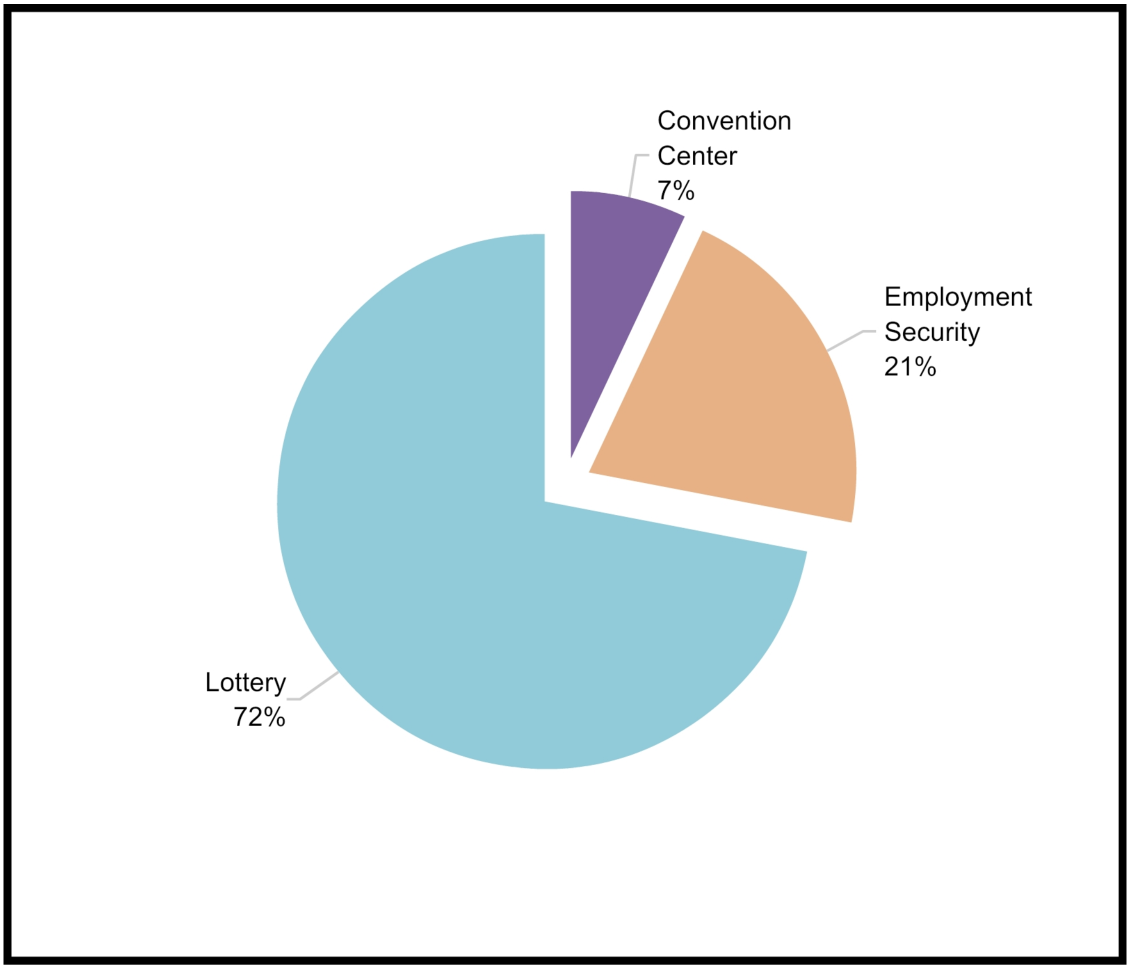
Chart 2 - Program Expenses - Governmental Activities



The relative mix of program expenses for governmental activities remained about the same in fiscal 2018 as in the prior fiscal year. There were slight increases in human services and education expenditures as a percent of total expenditures for the reasons discussed above.

Chart 3 depicts the program expenses related to Business Type Activities during the fiscal year ended June 30, 2018.

Chart 3 - Program Expenses - Business Type Activities



The relative mix of expenses for business-type activities remained about the same as the prior fiscal year. Expenditures on employment security programs reflected a slight decline this fiscal year, due to the improving local economy and lower unemployment rates.

Financial Analysis of the State's Funds

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. At the end of the current fiscal year, the State's governmental funds reported a combined ending fund balance of $1.297 billion, a decrease of $71.7 million from June 30, 2017. A breakdown of the components follows (expressed in thousands):

			Increase (decrease) from 2017	
	2018	2017	Change	Percent
Governmental Funds				
Nonspendable	$ 1,800	$ 174	$ 1,626	934.48%
Restricted	955,427	1,033,684	(78,257)	-7.57%
Unrestricted				
Committed	79,992	66,229	13,763	20.78%
Assigned	42,385	67,931	(25,546)	-37.61%
Unassigned	217,006	200,300	16,706	8.34%
Total	$ 1,296,610	$ 1,368,318	$ (71,708)	-5.24%

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned primarily based on the extent to which the State is bound to honor constraints on how specific amounts can be spent. More information about each category is presented below:

- Nonspendable fund balance - amounts that cannot be spent because they are either (a) not spendable in form, or (b) legally or contractually required to be maintained intact.
- Restricted fund balance - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by constitutional provisions or by law through enabling legislation enacted by the General Assembly.
- Committed fund balance - amounts that can only be used for specific purposes determined by the enactment of legislation by the General Assembly, and that remain binding unless removed in the same manner. The underlying action that imposed the limitation must occur no later than the close of the fiscal year and must be binding unless repealed by the General Assembly.
- Assigned fund balance - amounts that are constrained by the State's intent that they be used for specific purposes. The intent is generally established by legislation enacted by the General Assembly and is implemented at the direction of the Governor.
- Unassigned fund balance - in the State's General Fund, the residual classification for amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

Significant changes in fund balance are discussed below:

- The net decrease of $78.3 million in the restricted portion of the fund balance is primarily related to spending of the proceeds from highway and bridge improvement bonds (GARVEE bonds) issued in prior years for projects being done under the RhodeWorks program.

- The net increase of $13.8 million in the committed portion of the unrestricted fund balance is primarily attributable to an increase in the RI Highway Maintenance Account within the Intermodal Surface Transportation Fund. This account, which is funded by a variety of motor vehicle and license related fees, was created by the General Assembly in the 2014 session to address the State's highway and bridge infrastructure improvement needs.

- The net decrease of $25.5 million in the assigned portion of the unrestricted fund balance primarily resulted from a reduction in the amount of assigned fund balance allocated to fund the fiscal 2019 budget.

General Fund

The General Fund is the chief operating fund of the State. The fund balance of the General Fund consisted of the following (expressed in thousands):

	2018	2017	Increase (decrease) from 2017	
			Change	Percent
Nonspendable	$ 1,626	$ —	$ 1,626	N/A
Restricted	93,318	117,668	(24,350)	-20.69%
Unrestricted				
Committed	3,210	2,556	654	25.59%
Assigned	42,385	67,931	(25,546)	-37.61%
Unassigned	218,136	201,818	16,318	8.09%
Total	$ 358,675	$ 389,973	$ (31,298)	-8.03%

Revenues and other sources of the General Fund totaled $7.0 billion in fiscal 2018, an increase of $241 million or 3.6% from the previous year. The revenues from various sources and the change from the previous year are shown in the following tabulation (expressed in thousands):

	2018	2017	Increase (decrease) from 2017	
			Amount	Percent
Revenues				
Taxes:				
Personal income	$ 1,339,798	$ 1,235,991	$ 103,807	8.40 %
Sales and use	1,244,806	1,184,326	60,480	5.11 %
General business	426,783	398,570	28,213	7.08 %
Other	65,325	99,181	(33,856)	(34.14)%
Subtotal	3,076,712	2,918,068	158,644	5.44 %
Federal grants	2,744,485	2,726,644	17,841	0.65 %
Restricted revenues	230,156	217,258	12,898	5.94 %
Licenses, fines, sales, and services	383,325	348,934	34,391	9.86 %
Other general revenues	81,439	56,435	25,004	44.31 %
Subtotal	3,439,405	3,349,271	90,134	2.69 %
Total revenues	6,516,117	6,267,339	248,778	3.97 %
Other sources				
Transfer from Lottery	364,974	362,697	2,277	0.63 %
Other transfers	73,354	70,656	2,698	3.82 %
Special Item	—	10,360	(10,360)	(100.00)%
Capital leases	—	2,500	(2,500)	(100.00)%
Total revenues and other sources	$ 6,954,445	$ 6,713,552	$ 240,893	3.59 %

Fiscal 2018 personal income taxes rose from fiscal 2017 levels, increasing $103.8 million or 8.4 percent. Final payments, payments made with a return and extension payments, increased by 17.9 percent while estimated payments rose a strong 11.9 percent. It is believed that both these increases were due in part to the passage of the federal Tax Cuts and Jobs Act at the end of 2017. Personal income tax withholding payments maintained the prior fiscal year's rate of growth at 4.6 percent in fiscal 2018. Personal income tax refunds and adjustments rose by 4.1 percent in fiscal 2018 vs. fiscal 2017, an increase of $13.2 million.

The State's unemployment rate declined slightly, according to IHS Markit, from 4.7 percent in fiscal year 2017 to 4.5 percent in fiscal 2018, a decline of 0.2 percentage points. Nominal personal income growth rose sharply in fiscal 2018 to 4.5 percent from 2.5 percent in fiscal 2017. General sales and use tax revenues improved significantly with a gain of 5.1 percent in fiscal 2018 over fiscal 2017, likely enhanced by increased State efforts to capture sales tax from remote sellers and the prior fiscal year's strong housing market. Fiscal 2018 use tax payments paid at the time of registration of a new motor vehicle increased by 1.7 percent, down from the 2.9 percent rate of growth between fiscal 2016 and fiscal 2017. Sales taxes collected from the provision of prepared meals and beverages increased 9.7 percent in fiscal 2018, nearly four times the rate of growth recorded in fiscal 2017.

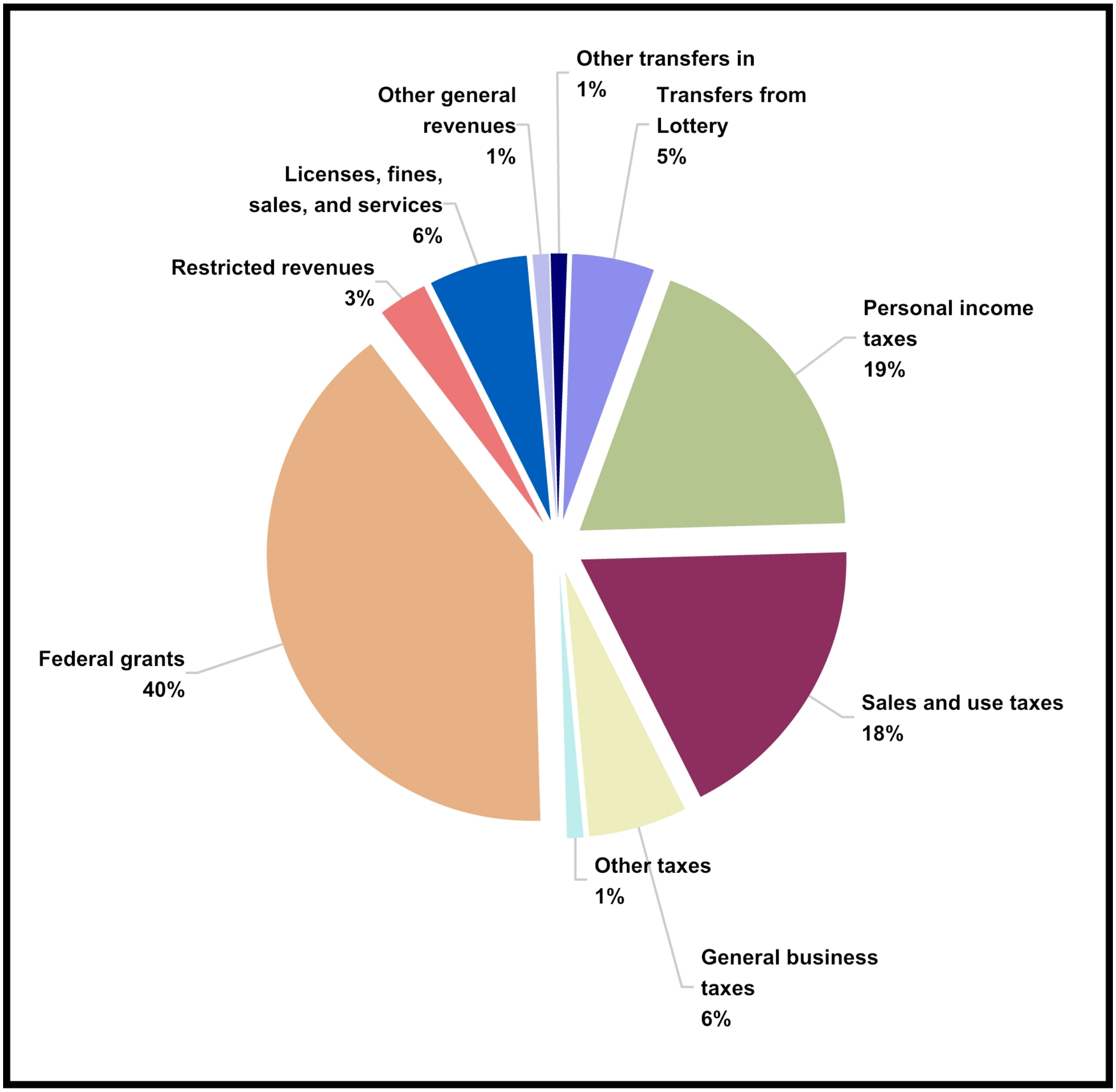
General business tax revenues increased by 7.1% percent in fiscal 2018, driven by outsized gains in public utilities gross earnings tax payments of 21.2 percent, and financial institutions tax revenues of 31.5 percent. These increases were buttressed by a gain in business corporation tax revenues of 7.0 percent.

Other taxes fell by 34.1 percent from fiscal 2017. Estate and transfer tax revenues declined by 39.8 percent from fiscal year 2017 levels, due to the receipt of large estate and transfer tax payment(s) in fiscal 2017 that did not repeat at the same levels in fiscal 2018. Realty transfer taxes rose 2.0 percent from fiscal 2017 levels, reflecting a cooling in the State's housing market as available inventory began to shrink.

Finally, the R.I. Lottery's transfer to the General Fund was flat at 0.6 percent growth in fiscal 2018 from fiscal 2017. Sales of traditional lottery products were up 3.4 percent year-over-year, reflective of changes to the Mega Millions® game, including an increase in ticket price, as well as the introduction of new high price point instant games. Video lottery net terminal income revenues decreased by 0.2 percent in fiscal 2018 due to increased competition from a nearby Massachusetts casino. Net revenues from the operation of table games at Twin River increased by 4.1 percent with the addition of 6 tables in July 2017 and continued targeted marketing efforts. The State's general fund share of net revenues from table games was $18.6 million after netting out expenses incurred by the Lottery in the operation of table games.

Chart 4 depicts the General Fund's revenues and other sources for fiscal 2018.

Chart 4 - Revenues and Other Sources - General Fund



Expenditures and transfers out totaled $6,985.7 million in fiscal 2018, an increase of $161.5 million, or 2.37%, from the previous year. Changes in expenditures and other uses by function from the previous year are shown in the following tabulation (expressed in thousands):

			Increase (decrease) from 2017	
	2018	2017	Amount	Percent
General government	$ 510,206	$ 553,479	$ (43,273)	-7.82%
Human services	3,928,845	3,831,633	97,212	2.54%
Education	1,579,577	1,525,626	53,951	3.54%
Public safety	555,393	534,495	20,898	3.91%
Natural resources	80,820	77,556	3,264	4.21%
Debt Service:				
Principal	131,903	103,176	28,727	27.84%
Interest	59,409	61,208	(1,799)	-2.94%
Total expenditures	6,846,153	6,687,173	158,980	2.38%
Transfers out	139,590	137,092	2,498	1.82%
Total expenditures and transfers out	$ 6,985,743	$ 6,824,265	$ 161,478	2.37%

The year-over-year decrease of approximately $43.3 million in the General Government function is primarily attributable to a reduction in funding for various economic development programs within the Executive Office of Commerce. Fiscal 2016 and fiscal 2017 appropriations for certain economic development initiatives were financed with one-time resources from a debt restructuring in July 2015. In addition, as part of the fiscal 2018 final budget, new internal service funds were created for information technology, facilities management and human resources. Funding associated with these services was previously budgeted within the Department of Administration. A large portion of this funding was transferred into agency budgets in the final fiscal 2018 enacted appropriations, resulting in reduced spending in the General Government function and increased spending in other functional areas. Spending from the Regional Greenhouse Gas Initiatives account, which derives revenues from auctions of CO_2 allowances, continued to decline in fiscal 2018 by approximately $2.5 million.

The year-over-year increase of $97.2 million in the Human Services function is attributable to several factors: (1) Spending on the Unified Health Infrastructure Project (UHIP), the State's new human services eligibility system, increased by almost $25 million. (2) Spending on the Medicaid program increased due to continued general growth in healthcare costs. (3) New federal Medicaid funding for the Health System Transformation Project resulted in increased spending of $13.6 million.

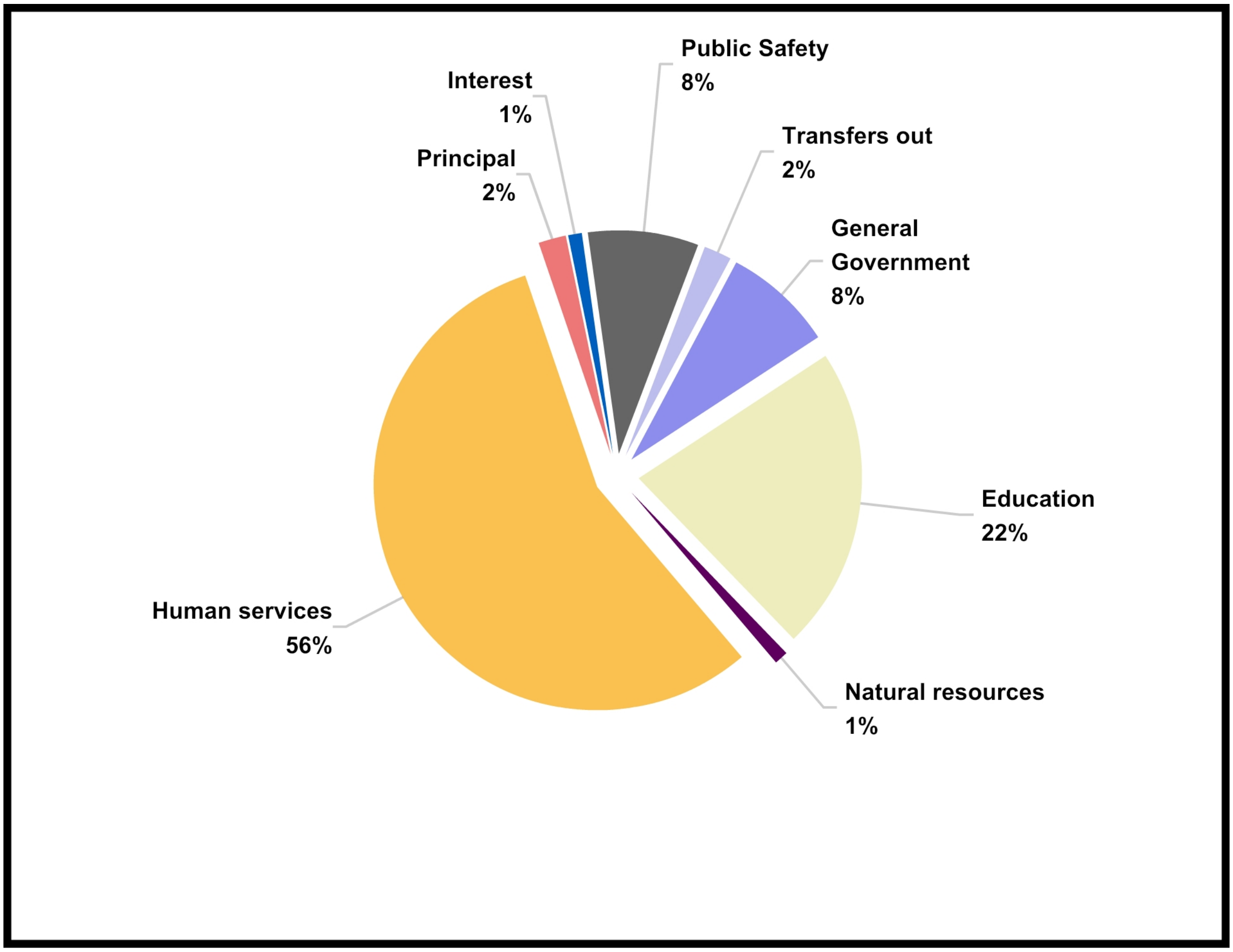
The primary driver of the increase in Education function expenditures of $54.0 million is the continued transition to the Education Funding Formula, which required almost $44.3 million in additional funding in fiscal 2018 compared to fiscal 2017. Also in this functional area, new funding was provided in fiscal year 2018 for lease costs associated with the new Nursing Education Center ($3.4 million) and for the Governor's RI Promise scholarship program ($3.0 million). Finally, additional State support of $3.3 million was provided for the three institutions of higher education.

The year-over-year increase of $20.9 million in Public Safety function expenditures is due to increased federal spending for capital projects under the National Guard; spending of federal forfeiture funds by the Attorney General's Office for the construction of a new building on the Pastore Campus in Cranston; and additional spending of $18.5 million in the Department of Corrections primarily due to increased personnel costs from overtime and negotiated raises. Expenditures in the Department of Public Safety declined by approximately $16.1 million primarily due to a one-time payment of $15.0 million in fiscal 2017 from the State Police's Equitable Sharing Settlement Federal Forfeiture account for the establishment of a pension trust fund for retired State Troopers, previously covered under a pay-as-you-go pension program.

The increase in debt service of $26.9 million from fiscal 2017 to fiscal 2018 is partially the result of a restructuring of debt in July 2015 that reduced expenditures in fiscal 2016 and to a lesser extent in fiscal 2017. In addition, new debt issuances for general obligation bonds and Certificates of Participation resulted in new debt service expenditures of $8.3 million.

Chart 5 depicts the General Fund's expenditures and other uses for fiscal 2018.

Chart 5 - Expenditures and Other Uses - General Fund



Intermodal Surface Transportation Fund

The Intermodal Surface Transportation Fund (IST) is a special revenue fund that accounts for the collection of gasoline tax, motor vehicle registration and licensing fees, tolls, federal grants, Rhode Island Capital Plan funds, and bond proceeds that are used for maintenance, upgrading, and construction of the State's surface transportation systems. It also accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds, the I-195 Redevelopment District Commission bonds, and related expenditures. The components of the fund balance of the IST fund are as follows (expressed in thousands):

			Increase (decrease) from 2017	
	2018	2017	Change	Percent
Restricted	$ 339,836	$ 392,441	$ (52,605)	-13.40%
Unrestricted				
Committed	76,391	63,292	13,099	20.70%
Unassigned (deficit)	(1,130)	(1,518)	388	-25.56%
Total	$ 415,097	$ 454,215	$ (39,118)	-8.61%

The net decrease of $52.6 million in the restricted portion of the fund balance is primarily related to the expenditure of proceeds of bonds issued in prior years for significant bridge and road replacements and upgrades under the RhodeWorks program. The net increase of $13.1 million in the committed portion of the unrestricted fund balance primarily resulted from an increase in the RI Highway Maintenance Account.

General Fund Budgetary Highlights - General Revenue Sources

According to the State’s Constitution, general revenue appropriations in the general fund cannot exceed 97% of available general revenue sources. These sources consist of the current fiscal year’s budgeted general revenue plus the general fund undesignated fund balance from the prior fiscal year. Excess revenue is transferred to the State Budget Reserve Account. If the balance in the Reserve exceeds 5% of the total general revenues and opening surplus, the excess is transferred to the R.I. Capital Plan Fund to be used for capital projects. The current fiscal year’s general revenue estimates are established by the State’s revenue estimating conference. If actual general revenue is less than the projection, appropriations have to be reduced or additional revenue sources must be identified. Certain agencies have federal programs that are entitlements, which continue to require State funds to match the federal funds. Agencies may get additional appropriation from the General Assembly, provided a need is established.

Adjustments to general revenue receipt estimates resulted in an increase of $75.7 million between the original budget and the final budget. General revenue appropriations increased from the original budget by $64.7 million. Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations (expressed in thousands) are listed below.

General Fund Budgetary Highlights
General Revenue Sources
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual*	Final Budget vs. Actual Variance
Revenues and other sources:				
Taxes:				
Personal income	$ 1,302,189	$ 1,357,200	$ 1,345,272	$ (11,928)
General business	458,383	440,300	442,446	2,146
Sales and use	1,233,676	1,235,700	1,244,834	9,134
Other taxes	36,875	66,800	65,325	(1,475)
Departmental revenue	393,224	396,500	397,579	1,079
Other sources:				
Lottery transfer	362,500	364,613	364,974	361
Unclaimed property	10,900	10,900	10,902	2
Miscellaneous	36,978	38,450	37,054	(1,396)
Total revenues and other sources	3,834,725	3,910,463	3,908,386	(2,077)
Expenditures and other uses:				
General government	474,513	462,089	454,517	(7,572)
Human services	1,404,896	1,467,671	1,443,950	(23,721)
Education	1,386,002	1,386,239	1,386,183	(56)
Public safety	460,151	473,218	471,234	(1,984)
Natural resources	41,792	42,818	42,816	(2)
Total expenditures and other uses	3,767,354	3,832,035	3,798,700	(33,335)
Excess of revenues and other sources over expenditures and other uses	$ 67,371	$ 78,428	$ 109,686	$ 31,258

*See Note 1 on the General Fund Budgetary Comparison Schedule

The negative variance between the fiscal 2018 actual revenues and the fiscal 2018 final budget for personal income taxes was largely attributable to an increase in refunds and adjustments of $9.6 million and a shortfall in estimated payments of $8.8 million. Relative to the original enactment of the fiscal 2018 budget in August 2017, actual fiscal 2018 personal income tax revenues outperformed on three components with estimated payments $16.7 million more, final payments $27.8 million greater, and withholding payments $13.5 million above original enacted. These overages were offset by an increase in refunds and adjustments payments of $23.3 million.

Actual fiscal 2018 general business taxes came in slightly ahead of the final enacted budget but $15.9 million less than the original budget due overwhelmingly to actual business corporation tax revenues coming in $31.5 million lower than the estimated amount included in the original budget. This realized decrease was offset in part by higher than originally expected public utilities gross earnings and financial institutions tax revenues of $11.8 million and $9.0 million respectively.

Sales and use tax revenues received in fiscal 2018 were marginally less than estimated sales and use tax revenues included in the fiscal 2017 original budget by $2.3 million with weaker sales and use tax revenues offset by higher motor vehicle license and registration fee revenues of $10.5 million and higher cigarette and other tobacco products excise tax revenues of $3.8 million when compared to the original budget. The increase in motor vehicle license and registration fees were due in large part to the General Assembly increasing the percentage of these fees to be retained as general revenue from 20 percent in the original budget to 40 percent in the final budget.

Actual fiscal 2018 other tax revenues were substantively higher than in the original budget but slightly lower than the final budget. In the case of the former the difference was $28.4 million while in the case of the latter the difference was $(1.5 million). The large positive variance between actual fiscal 2018 and the original budget is due to the receipt of sharply higher estate and transfer tax payment(s) of $28.2 million over the course of the fiscal year, payments, the receipt of which, are difficult to predict in number and amount. By the time the final budget was enacted, all payments such as these had been received and in fact more regular estate and transfer tax payments fell short of expectations by $798,450. In addition, actual realty transfer tax revenues in fiscal 2018 ended up less than expected in the final budget by $658,434 but marginally exceeded the amount included in the original budget.

Finally, the actual fiscal 2018 Lottery transfer to the General Fund was in-line with the revenue estimate contained in the final budget but was $2.5 million above the estimated Lottery transfer to the General Fund contained in the fiscal 2018 original budget. The transfer of net terminal income from the video lottery terminals installed at Twin River and Newport Grand were slightly less than projected in the fiscal 2018 original budget but this shortfall was more than offset by the $3.0 million increase in transfer revenues generated by traditional lottery products due to changes to the Mega Millions® game, including an increase in ticket price, as well as the introduction of new high price point instant games.

The positive expenditure variance in the General Government function of approximately $7.6 million was primarily due to surpluses in two agencies, offset by a large deficit in one agency. Within the Department of Administration, most of the positive variance of $3.0 million was in the Division of Capital Asset Management and Maintenance program due to lower than anticipated energy and repair costs. In the Legislature’s budget, the positive variance was $7.9 million, which under Rhode Island law is fully reappropriated to fiscal 2019. The Legislature has carried forward a similar sized reappropriation for several years. Offsetting these surpluses was an unfavorable variance of $3.9 million in the Department of Labor and Training caused by reductions in federal unemployment insurance funding over the past two fiscal years that caused additional administrative expenditures to be funded by general revenue.

The positive variance in the Human Services function of approximately $23.7 million was due to a positive variance of $23.1 million in the Office of Health and Human Services (OHHS), offset by a deficit of $7.7 million in the Department of Children, Youth and Families (DCYF). The OHHS positive variance was primarily in the managed care and nursing facilities portions of the Medicaid program. The DCYF deficit was due to higher caseloads of children under the Department’s care than anticipated in the final enacted budget.

The positive variance of $2.0 million in Public Safety function was primarily due to a positive variance of $1.9 million in the Judicial Department. As with the General Assembly, under Rhode Island law it is fully reappropriated to fiscal 2019. The surplus in the Judiciary was largely in the Supreme Court, with smaller surpluses in the other courts, mostly due to personnel savings from vacant positions.

Capital Assets and Debt Administration

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2018 amounts to $4,432.8 million, net of accumulated depreciation of $3,255.7 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total increase in the State's investment in capital assets for the current fiscal year was approximately 2.39% of net book value. This increase is primarily related to investments for the construction and rehabilitation of highways and bridges as well as other infrastructure, new buildings and major software modernization initiatives.

Actual expenditures to purchase or construct capital assets were $344.8 million for the year. Of this amount, $209.0 million was used to construct or reconstruct highways. Depreciation charges for the year totaled $242.8 million.

State of Rhode Island's Capital Assets as of June 30, 2018 and 2017

(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Capital assets not being depreciated or amortized						
Land	$ 391,854	$ 393,291	$ 46,808	$ 46,808	$ 438,662	$ 440,099
Works of Art	4,340	3,449	—	—	4,340	3,449
Intangibles	177,770	173,393	—	—	177,770	173,393
Construction in progress	285,410	568,594	5,511	840	290,921	569,434
Total capital assets not being depreciated or amortized	859,374	1,138,727	52,319	47,648	911,693	1,186,375
Capital assets being depreciated or amortized						
Land improvements	8,380	4,665	—	—	8,380	4,665
Buildings	871,696	719,277	234,377	234,377	1,106,073	953,654
Building improvements	432,920	372,596	—	—	432,920	372,596
Equipment	348,416	326,981	33,034	31,379	381,450	358,360
Intangibles	341,951	256,390	175	175	342,126	256,565
Infrastructure	4,505,862	4,220,721	—	—	4,505,862	4,220,721
	6,509,225	5,900,630	267,586	265,931	6,776,811	6,166,561
Less: Accumulated depreciation or amortization	3,070,222	2,847,909	185,496	175,855	3,255,718	3,023,764
Total capital assets being depreciated or amortized	3,439,003	3,052,721	82,090	90,076	3,521,093	3,142,797
Total capital assets (net)	$ 4,298,377	$ 4,191,448	$ 134,409	$ 137,724	$ 4,432,786	$ 4,329,172

Additional information on the State's capital assets can be found in Note 5 to the financial statements of this report.

Debt Administration

Under the State's Constitution, the General Assembly has no power to incur State debts in excess of $50 thousand without the consent of the people (voters), except in the case of war, insurrection or invasion, or to pledge the faith of the State to the payment of obligations of others without such consent.

At the end of the current fiscal year, the State’s governmental activities had total bonded debt outstanding of $2.4 billion, of which $1,160.0 million is general obligation debt, $563.2 million is special obligation debt and $642.0 million is debt of the blended component units. Additionally, accreted interest of $97.5 million has been recognized for debt of one blended component unit, which is not scheduled to be paid until 2052. On an overall basis the State's total bonded debt increased by $5.1 million during fiscal 2018. This increase consists of a $68.6 million increase in general obligation debt, a decrease of $43.1 in special obligation debt, and a decrease of $20.5 million in the blended component units’ debt.

The general obligation debt is supported by the full faith and credit of the State. Other obligations subject to annual appropriation by the R.I. General Assembly totaling $276.1 million and $1,250.7 million are supported by pledged revenue. These obligations are discussed in Notes 6 and 18 H.

In March 2018 the State issued $149.4 million of general obligation bonds with interest rates ranging from 2.75% to 5.00%, maturing from 2019 through 2038. The premium paid on these bonds was $8.7 million.

The State’s assigned general obligation bond ratings are as follows: AA (Stable) by Standard & Poor’s Ratings Services (S&P), Aa2 (Stable) by Moody’s Investor Service, Inc., and AA (Stable) by Fitch Ratings. The State does not have any debt limitation.

Bonds authorized by the voters that remain unissued as of June 30, 2018 amounted to $246.2 million; other obligations that are authorized but unissued totaled $175.3 million and are described in Note 6. Additional information on the State's long-term debt can be found in the notes to the financial statements of this report.

Conditions Expected to Affect Future Operations

Fiscal Year 2019 Budget

The first quarter report for fiscal 2019 prepared by the State Budget Office contains estimates of annual expenditures based upon analysis of expenditures through the first quarter, as well as caseload and Medical Assistance expenditure estimates and revenue estimates adopted at the November 2018 Caseload and Revenue Estimating Conferences. The fiscal 2019 balance, based upon these assumptions, is estimated to reflect a $41.9 million general revenue deficit at year end in the General Fund.

In the first quarter report for fiscal 2019 a number of departments, primarily in the Human Service area as well as the Departments of Corrections projected deficits. All changes recommended by the Governor in the fiscal 2019 enacted appropriations, or adopted revenues, will be incorporated in the supplemental appropriations bill, which must be submitted to the General Assembly in early 2019.

The November Revenue Estimating Conference's estimates reflect recent revenue trends and expected collections based upon the current economic forecast. On the revenue side, general revenue receipts are expected to be $5.4 million less than enacted for fiscal 2019. Taxes are expected to be $16.9 million less than the enacted estimates, while departmental revenues and other sources are expected to be $11.5 million more than enacted estimates. The November Revenue Estimating Conference estimates that revenues will be $3,993.1 million as compared with the enacted estimate of $3,998.5 million for fiscal 2019.

The November Caseload Estimating Conference estimates reflect, in comparison to the fiscal 2019 enacted budget, increased general revenue funding for fiscal 2019 of $11.7 million. This is due to a number of factors including increased costs for the Medical program.

RIBridges / Unified Health Infrastructure Project ("UHIP")

The RIBridges system, also known as the Unified Health Infrastructure Project or UHIP, is Rhode Island's new integrated eligibility system for various health and human services programs and the State's Health Insurance Exchange established pursuant to the ACA. The system implementation has resulted in challenges in determining and/or re-determining eligibility for the programs administered through the new system. Efforts to address the implementation issues continue and have resulted in improved system functionality at June 30, 2018 and subsequently. However, there are contingencies related to UHIP which are further discussed in Note 13, Contingencies.

Lottery Revenue

The General Fund derives more than 9% of general revenue from the Rhode Island Lottery.

The Lottery's gaming operations currently compete with casinos in nearby states. These neighboring states have already opened new casino facilities and are planning additional casino expansion which is likely to further increase gaming competition in New England. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.

A new casino/hotel was recently opened in Tiverton, Rhode Island near the Massachusetts border by Premier Entertainment II, LLC, a limited liability corporation of which the Twin River Management Group (TRMG) is the sole member. The gaming operations from Newport Grand were transferred to the Tiverton Casino. The State and TRMG believe that this new facility will be better situated to compete with casinos in nearby Massachusetts.

Legislation approving betting on certain sporting events was approved by the General Assembly in the 2018 session. A sports betting facility opened at the Twin Rivers Casino in November 2018 and one opened at the Tiverton Casino in December 2018.

Pension Benefits

The State's financial statements include the net pension liability for the various defined benefit pension plans covering state employees and teachers. Please see Note 14 for information about each of the State's pension plans.

With the implementation of GASB Statement No. 68, the accounting measures for pension expense and related liabilities will differ from those used for funding purposes. The accounting measures are likely to be more volatile year to year since the net pension liability reflects the fair value of pension plan assets at June 30 whereas the funding measures use a five-year smoothed actuarial value of assets.

Future operations will continue to be affected by the amounts actuarially required to responsibly fund pensions consistent with statutory and actuarial requirements. Similarly, the State's overall net position will continue to be affected by market conditions affecting the fair value of assets accumulated for future pension benefits and the accounting measures reflecting the changes in those pension liabilities year to year.

In May 2017, the Employees' Retirement System of Rhode Island Board voted to lower the investment rate of return assumption from 7.5% to 7% which has been reflected in the determination of the net pension liability for the various plans administered by the System beginning with the June 30, 2017 measurement date valuations. Funding valuations performed as of June 30, 2017 reflected the lower investment return assumption and will impact required employer contributions beginning in fiscal 2020.

Other Postemployment Benefits (OPEB)

The State's fiscal 2018 financial statements, as required by the implementation of GASB Statement No. 75, include the net OPEB liability or asset for the various OPEB plans covering State employees.

With the implementation of GASB Statement No. 75, the accounting measures of OPEB expense and related liabilities will differ from those used for funding purposes. The accounting measures are likely to be more volatile year to year since the net OPEB liability or asset reflects the fair value of OPEB plan assets at June 30 whereas the funding measures use a four-year smoothed actuarial value of assets.

Future operations will continue to be affected by the amounts actuarially required to responsibly fund OPEB consistent with statutory and actuarial requirements. Similarly, the State's overall net position will continue to be affected by market conditions affecting the fair value of assets accumulated for future OPEB benefits and the accounting measures reflecting the changes in those pension liabilities year to year.

Transportation Funding Initiative

In order to address Rhode Island's continuing issues with deteriorating roads and bridges, a new initiative proposed by the Governor, called RhodeWorks, was enacted by the General Assembly in 2016. RhodeWorks calls for investing an additional $1 billion above current plans in transportation infrastructure to fix more than 150 structurally deficient bridges and make repairs to another 500 bridges to prevent them from becoming structurally deficient. The plan also refocuses efforts to expand transit. The plan is financed by 1) user fees on large commercial trucks, 2) $300 million of new GARVEE debt that will be repaid with federal funds, and 3) $129 million of federal funds made available sooner by restructuring existing federally-funded debt. The plan is expected to save nearly $1 billion over 10 years by addressing transportation infrastructure problems on a more proactive basis.

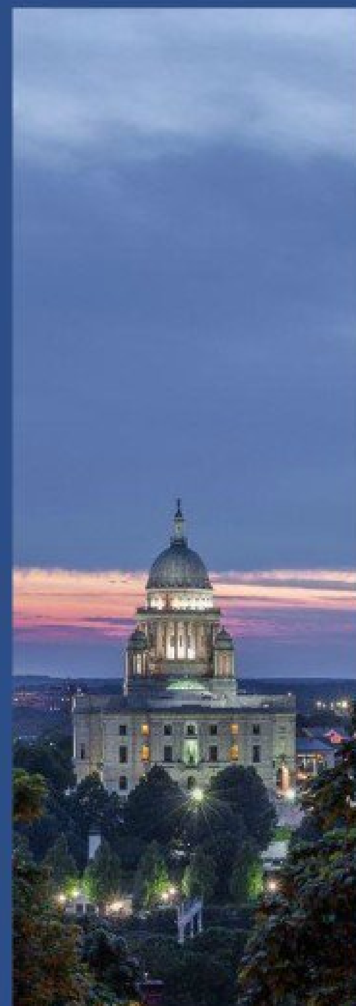
School Building Task Force

The Rhode Island School Building Task Force issued a report in December 2017 recommending specific actions to address Rhode Island's school facilities deficiencies. The Task Force report is in response to an in-depth analysis of the condition of every public-school facility in the state. The Task Force recommended that the State of Rhode Island, in partnership with municipalities and school districts embark on a once-in-a generation investment in upgrading public-school buildings. Among other recommendations, the task force recommended a referendum be placed before the voters in 2018 to issue $250 million in general obligation bonds with a similar referendum in 2022 for an additional $250 million. The voters of the State approved the November 2018 referendum authorizing the issuance of the first $250 million in general obligation bonds.

Requests for Information

This report is designed to provide a general overview of the State's finances and accountability for all of the State's citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be sent to Jennifer.Findlay@doa.ri.gov. The State's Comprehensive Annual Financial Report may be found on the State Controller's home page, http://controller.admin.ri.gov/index.php. Requests for additional information related to component units should be addressed to the entities as listed in Note 1 of the financial statements.

Basic Financial Statements



State of Rhode Island

Fiscal Year Ended
June 30, 2018

State of Rhode Island and Providence Plantations
Statement of Net Position
June 30, 2018
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business - Type Activities	Total	Component Units
Assets and deferred outflows of resources				
Current assets:				
Cash and cash equivalents	$ 722,682	$ 25,685	$ 748,367	$ 361,223
Funds on deposit with fiscal agent	346,251	404,996	751,247	—
Investments	—	—	—	7,036
Receivables (net)	831,215	74,414	905,629	112,395
Restricted assets:	—	—	—	—
Cash and cash equivalents	51,768	42,686	94,454	664,216
Investments	—	—	—	228,940
Receivables (net)	—	—	—	85,298
Other assets	—	—	—	55,563
Due from primary government	—	—	—	27,903
Due from component units	5,710	—	5,710	2,457
Internal balances	197	(197)	—	—
Due from other governments and agencies	315,422	1,018	316,440	706
Inventories	2,133	1,455	3,588	8,425
Other assets	8,749	479	9,228	14,673
Total current assets	2,284,127	550,536	2,834,663	1,568,835
Noncurrent assets:				
Investments	—	—	—	216,513
Receivables (net)	14,548	—	14,548	1,241,228
Due from other governments and agencies	19,409	—	19,409	—
Restricted assets:	—	—	—	—
Cash and cash equivalents	—	—	—	70,216
Investments	—	—	—	217,131
Receivables (net)	—	—	—	2,230
Other assets	—	—	—	1,529,457
Due from component units	43,838	—	43,838	1,325
Net OPEB Asset	3,757	—	3,757	—
Capital assets - nondepreciable	859,374	52,319	911,693	277,020
Capital assets - depreciable (net)	3,439,003	82,090	3,521,093	1,880,986
Other assets	1	292	293	165,324
Total noncurrent assets	4,379,930	134,701	4,514,631	5,601,430
Total assets	6,664,057	685,237	7,349,294	7,170,265
Deferred outflows of resources	855,400	11,606	867,006	109,867

(Continued)

State of Rhode Island and Providence Plantations
Statement of Net Position
June 30, 2018
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business - Type Activities	Total	Component Units
Liabilities and deferred inflows of resources				
Current Liabilities:				
Accounts payable	780,615	21,566	802,181	96,471
Due to primary government	—	—	—	5,710
Due to component units	27,902	—	27,902	2,457
Due to other governments and agencies	—	1,460	1,460	—
Accrued expenses	—	6,241	6,241	—
Unearned revenue	36,649	—	36,649	34,024
Other current liabilities	122,135	184	122,319	454,180
Current portion of long-term debt	238,640	15,435	254,075	235,135
Obligation for unpaid prize awards	—	9,167	9,167	—
Total current liabilities	1,205,941	54,053	1,259,994	827,977
Noncurrent Liabilities:				
Due to primary government	—	—	—	43,838
Net pension liability	2,267,701	16,869	2,284,570	305,356
Net pension liability-special funding situation	1,357,577	—	1,357,577	—
Net OPEB liability	511,649	3,864	515,513	188,906
Unearned revenue	—	3,109	3,109	8,553
Due to component units	—	—	—	1,325
Notes payable	—	—	—	140,255
Loans payable	—	—	—	9,094
Obligations under capital leases	174,746	—	174,746	3,342
Compensated absences	7,957	430	8,387	21,527
Bonds payable	2,537,150	223,757	2,760,907	2,659,479
Other liabilities	42,543	—	42,543	377,055
Total noncurrent liabilities	6,899,323	248,029	7,147,352	3,758,730
Total liabilities	8,105,264	302,082	8,407,346	4,586,707
Deferred inflows of resources	182,217	935	183,152	29,530
Net position (deficit)				
Net investment in capital assets	3,356,040	(50,807)	3,305,233	1,412,626
Restricted for:				
Capital Projects	114,470	—	114,470	—
Debt	90,679	1,117	91,796	298,501
Assistance to other entities	133,742	—	133,742	—
Employment security programs	153,882	469,953	623,835	—
Other	85,362	—	85,362	829,482
Nonexpendable	174	—	174	198,670
Unrestricted	(4,702,373)	(26,437)	(4,728,810)	(75,384)
Total net position (deficit)	$ (768,024)	$ 393,826	$ (374,198)	$ 2,663,895

(Concluded)

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations

Statement of Activities

For the Fiscal Year Ended June 30, 2018

(Expressed in Thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Position — Primary Government			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating grants and contributions**	**Capital grants and contributions**	**Governmental activities**	**Business-type activities**	**Totals**	**Component Units**
Primary government:								
Governmental activities:								
General government	$ 751,362	$ 240,236	$ 57,631	$ 454	$ (453,041)	$ —	$ (453,041)	$ —
Human services	3,965,185	274,115	2,397,295	11,981	(1,281,794)	—	(1,281,794)	—
Education	1,708,408	34,357	189,678	327	(1,484,046)	—	(1,484,046)	—
Public safety	433,815	38,239	40,150	27,275	(328,151)	—	(328,151)	—
Natural resources	97,253	28,429	18,786	5,656	(44,382)	—	(44,382)	—
Transportation	403,365	25,929	81,004	161,980	(134,452)	—	(134,452)	—
Interest and other charges	92,231	—	—	—	(92,231)	—	(92,231)	—
Total governmental activities	7,451,619	641,305	2,784,544	207,673	(3,818,097)	—	(3,818,097)	—
Business-type activities:								
State Lottery	521,594	885,574	—	—	—	363,980	363,980	—
Convention Center	52,684	30,504	—	—	—	(22,180)	(22,180)	—
Employment security	149,227	226,486	1,259	—	—	78,518	78,518	—
Total business-type activities	723,505	1,142,564	1,259	—	—	420,318	420,318	—
Total primary government	$ 8,175,124	$ 1,783,869	$ 2,785,803	$ 207,673	(3,818,097)	420,318	(3,397,779)	—
Component units:	$ 1,477,380	$ 807,827	$ 583,339	$ 177,830				91,616
General Revenues:								
Taxes:								
Personal income					1,342,256	—	1,342,256	—
General business					426,761	—	426,761	—
Sales and use					1,244,915	—	1,244,915	—
Gasoline					153,862	—	153,862	—
Other					306,751	—	306,751	—
Interest and investment earnings					10,548	604	11,152	61,571
Miscellaneous revenue					124,370	8,946	133,316	3,524
Transfers (net)					343,273	(343,273)	—	—
Total general revenues and transfers					3,952,736	(333,723)	3,619,013	65,095
Change in net position					134,639	86,595	221,234	156,711
Net position (deficit) - beginning as restated					(902,663)	307,231	(595,432)	2,507,184
Net position (deficit) - ending					$ (768,024)	$ 393,826	$ (374,198)	$ 2,663,895

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations

Balance Sheet

Governmental Funds

June 30, 2018

(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 270,723	$ 102,382	$ 314,061	$ 687,166
Funds on deposit with fiscal agent	—	322,431	23,820	346,251
Restricted cash equivalents	—	—	51,768	51,768
Receivables (net)	744,548	16,018	71,940	832,506
Due from other funds	—	1,786	17	1,803
Due from component units	—	283	—	283
Due from other governments and agencies	285,815	38,143	—	323,958
Loans to other funds	8,857	—	113,208	122,065
Other assets	2,489	—	—	2,489
Total assets	$ 1,312,432	$ 481,043	$ 574,814	$ 2,368,289
Liabilities, deferred inflows of resources and fund balances				
Liabilities				
Accounts payable	680,933	37,450	33,363	751,746
Due to other funds	11,218	—	6,507	17,725
Due to component units	8,880	9,876	8,922	27,678
Loans from other funds	113,208	—	3,008	116,216
Unearned revenue	36,380	—	—	36,380
Other liabilities	90,844	9,616	176	100,636
Total liabilities	941,463	56,942	51,976	1,050,381
Deferred inflows of resources	12,294	9,004	—	21,298
Fund Balances				
Nonspendable	1,626	—	174	1,800
Restricted	93,318	339,836	522,273	955,427
Unrestricted				
Committed	3,210	76,391	391	79,992
Assigned	42,385	—	—	42,385
Unassigned	218,136	(1,130)	—	217,006
Total fund balances	358,675	415,097	522,838	1,296,610
Total liabilities, deferred inflows of resources and fund balances	$ 1,312,432	$ 481,043	$ 574,814	$ 2,368,289

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Reconciliation of the Balance Sheet of the Governmental Funds
to the Statement of Net Position
June 30, 2018
(Expressed in Thousands)

Fund balance - total governmental funds			$ 1,296,610
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital Assets used in the governmental activities are not financial resources and therefore are not reported in the funds.			
	Capital assets	7,361,626	
	Accumulated depreciation	(3,066,182)	
			4,295,444
Deferred outflows of resources			855,400
Bonds, notes, certificates of participation, accrued interest, net pension liabilities and other liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds.			
	Compensated absences	(68,367)	
	Bonds payable	(2,462,686)	
	Net premium/discount	(218,134)	
	Obligations under capital leases	(184,573)	
	Premium	(16,905)	
	Interest payable	(21,289)	
	Net pension liabilities	(3,625,278)	
	Net OPEB liability	(511,649)	
	Other liabilities	(47,904)	
			(7,156,785)
Other long-term assets and unearned revenue are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
	Receivables	12,420	
	Due from component units	49,042	
	Net OPEB asset	3,757	
	Unavailable revenue	21,298	
			86,517
Deferred inflows of resources			(182,217)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net position of the internal service funds is reported with governmental activities.			37,007
Net position - total governmental activities			$ (768,024)

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Fiscal Year Ended June 30, 2018

(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	$ 3,076,712	$ 204,123	$ 191,207	$ 3,472,042
Licenses, fines, tolls, sales, and services	383,325	24,433	2,968	410,726
Departmental restricted revenue	230,156	1,468	—	231,624
Federal grants	2,744,485	241,670	—	2,986,155
Income from investments	2,098	3,939	3,746	9,783
Other revenues	79,341	4,803	46,237	130,381
Total revenues	6,516,117	480,436	244,158	7,240,711
Expenditures:				
Current:				
General government	510,206	—	197,747	707,953
Human services	3,928,845	—	—	3,928,845
Education	1,579,577	—	359	1,579,936
Public safety	555,393	—	—	555,393
Natural resources	80,820	—	—	80,820
Transportation	—	472,759	1,551	474,310
Capital outlays	—	—	203,687	203,687
Debt service:				
Principal	131,903	42	22,029	153,974
Interest and other charges	59,409	25,317	27,585	112,311
Total expenditures	6,846,153	498,118	452,958	7,797,229
Excess (deficiency) of revenues over (under) expenditures	(330,036)	(17,682)	(208,800)	(556,518)
Other financing sources (uses):				
Issuance of bonds and notes	—	—	149,375	149,375
Issuance of refunding bonds	—	35,020	—	35,020
Issuance of refunding certificates of participation	—	—	8,000	8,000
Proceeds from capital leases	—	1,328	—	1,328
Debt issuance premiums	—	5,665	9,228	14,893
Transfers in	438,328	39,363	116,124	593,815
Payment to advance refunded bonds escrow agent	—	(51,637)	(8,474)	(60,111)
Transfers out	(139,590)	(51,175)	(66,745)	(257,510)
Total other financing sources (uses)	298,738	(21,436)	207,508	484,810
Net change in fund balances	(31,298)	(39,118)	(1,292)	(71,708)
Fund balances - beginning	389,973	454,215	524,130	1,368,318
Fund balances - ending	$ 358,675	$ 415,097	$ 522,838	$ 1,296,610

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

Net change in fund balances - total governmental funds			$ (71,708)
Amounts reported for governmental activities in the Statement of Activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Current year acquisitions are therefore deducted from expenses on the Statement of Activities, less current year depreciation expense and revenue resulting from current year disposals.			
	Capital outlay	340,650	
	Depreciation expense	(232,041)	
			108,609
Bond, note, and certificate of participation proceeds provide current financial resources to governmental funds by issuing debt which increases long-term debt in the Statement of Net Position. Repayments of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.			
	Principal paid on debt	153,974	
	Debt redeemed and defeased in refunding	60,111	
	Accrued interest and other charges	(568)	
	Proceeds from sale of debt	(193,723)	
	Deferral of premium/discount	(14,730)	
	Amortization of premium/discount	36,389	
	Accreted interest	(11,702)	
	Deferral of refunding gains/losses	8,308	
	Amortization of refunding gains/losses	(10,087)	
			27,972
Revenues, expense reductions, and (expenses) in the Statement of Activities that do not provide (use) current financial resources are not reported as revenues (expenditures) in the governmental funds. In the current period, the net adjustments consist of:			
	Compensated absences	9,429	
	Pension expenses, net of related deferred outflows	57,750	
	OPEB expenses, net of related deferred outflows	6,667	
	Program expenses	(1,739)	
	Program and miscellaneous revenue	(5,477)	
	Operating and capital grant revenue	(4,521)	
	General revenue - taxes	2,504	
			64,613
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net position of the internal service funds is reported with governmental activities.			5,153
Change in net position - total governmental activities			$ 134,639

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Statement of Net Position
Proprietary Funds
June 30, 2018
(Expressed in Thousands)

	Business-type Activities- Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Assets and deferred outflows of resources					
Current assets:					
Cash and cash equivalents	$ 19,913	$ 3,529	$ 2,243	$ 25,685	$ 35,516
Restricted cash and cash equivalents	—	42,686	—	42,686	—
Funds on deposit with fiscal agent	—	—	404,996	404,996	—
Receivables (net)	8,291	1,377	64,746	74,414	11,756
Due from other funds	1,481	—	—	1,481	16,328
Due from other governments and agencies	—	—	1,018	1,018	25
Loans to other funds	—	—	—	—	2,777
Inventories	1,455	—	—	1,455	2,132
Other assets	43	436	—	479	6,281
Total current assets	31,183	48,028	473,003	552,214	74,815
Noncurrent assets:					
Capital assets - nondepreciable	—	52,319	—	52,319	—
Capital assets - depreciable (net)	314	81,776	—	82,090	2,532
Other assets	—	292	—	292	—
Total noncurrent assets	314	134,387	—	134,701	2,532
Total assets	31,497	182,415	473,003	686,915	77,347
Deferred outflows of resources	3,849	7,757	—	11,606	—
Liabilities and deferred inflows of resources					
Current liabilities:					
Accounts payable	15,170	6,396	—	21,566	23,197
Due to other funds	114	—	1,564	1,678	209
Due to other governments and agencies	—	—	1,460	1,460	—
Loans from other funds	—	—	—	—	8,626
Accrued expenses	6,241	—	—	6,241	—
Unearned revenue	625	3,761	—	4,386	—
Other current liabilities	172	—	12	184	8,308
Bonds payable	—	10,785	—	10,785	—
Compensated absences	264	—	—	264	—
Obligation for unpaid prize awards	9,167	—	—	9,167	—
Total current liabilities	31,753	20,942	3,036	55,731	40,340
Noncurrent liabilities:					
Net pension liability	16,869	—	—	16,869	—
Net OPEB liability	3,864	—	—	3,864	—
Unearned revenue	2,499	596	14	3,109	—
Bonds payable	—	223,757	—	223,757	—
Compensated absences	370	60	—	430	—
Total noncurrent liabilities	23,602	224,413	14	248,029	—
Total liabilities	55,355	245,355	3,050	303,760	40,340
Deferred inflows of resources	935	—	—	935	—
Net Position (Deficit)					
Net investment in capital assets	314	(51,121)	—	(50,807)	2,532
Restricted for:					
Debt	—	1,117	—	1,117	—
Employment insurance programs	—	—	469,953	469,953	—
Unrestricted	(21,258)	(5,179)	—	(26,437)	34,475
Total net position (deficit)	$ (20,944)	$ (55,183)	$ 469,953	$ 393,826	$ 37,007

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Operating revenues:					
Charges for services	$ —	$ 30,168	$ 222,183	$ 252,351	$ 423,295
Lottery sales	258,370	—	—	258,370	—
Video lottery, net	481,373	—	—	481,373	—
Table games	145,831	—	—	145,831	—
Federal grants	—	—	1,259	1,259	—
Miscellaneous	—	336	4,303	4,639	—
Total operating revenues	885,574	30,504	227,745	1,143,823	423,295
Operating expenses:					
Personal services	10,359	17,196	—	27,555	59,087
Supplies, materials, and services	351,627	14,128	—	365,755	366,235
Prize awards, net of prize recoveries	159,476	—	—	159,476	—
Depreciation and amortization	132	10,466	—	10,598	153
Benefits paid	—	—	149,227	149,227	—
Total operating expenses	521,594	41,790	149,227	712,611	425,475
Operating income (loss)	363,980	(11,286)	78,518	431,212	(2,180)
Nonoperating revenues (expenses):					
Interest revenue	543	61	—	604	342
Other nonoperating revenue	902	—	8,044	8,946	25
Interest expense	—	(10,894)	—	(10,894)	—
Total nonoperating revenue (expenses)	1,445	(10,833)	8,044	(1,344)	367
Income (loss) before transfers	365,425	(22,119)	86,562	429,868	(1,813)
Transfers in	—	21,682	51	21,733	6,966
Transfers out	(364,974)	—	(32)	(365,006)	—
Change in net position	451	(437)	86,581	86,595	5,153
Net position (deficit) - beginning (as restated)	(21,395)	(54,746)	383,372	307,231	31,854
Net position (deficit) - ending	$ (20,944)	$ (55,183)	$ 469,953	$ 393,826	$ 37,007

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2018

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Cash flows from operating activities:					
Cash received from gaming activities	$ 898,055	$ —	$ —	$ 898,055	$ —
Cash received from customers	—	30,990	227,940	258,930	413,657
Cash received from grants	—	—	1,259	1,259	—
Cash payments for gaming activities	(516,160)	—	—	(516,160)	—
Cash payments to suppliers	(5,819)	(14,035)	—	(19,854)	(364,559)
Cash payments to employees	(9,997)	(16,974)	—	(26,971)	(53,984)
Cash payments for benefits	—	—	(149,140)	(149,140)	—
Other operating revenue (expense)	—	—	4,575	4,575	23
Net cash provided by (used for) operating activities	366,079	(19)	84,634	450,694	(4,863)
Cash flows from noncapital financing activities:					
Loans from other funds	—	—	—	—	2,733
Loans to other funds	—	—	—	—	(1,800)
Repayment of loans to other funds	—	—	—	—	524
Repayment of loans from other funds	—	—	—	—	(6,438)
Transfers in	—	21,738	1,093	22,831	6,966
Transfers out	(368,366)	—	(76)	(368,442)	—
Net transfers from (to) fiscal agent	—	—	(84,449)	(84,449)	—
Net cash provided by (used for) noncapital financing activities	(368,366)	21,738	(83,432)	(430,060)	1,985
Cash flows from capital and related financing activities:					
Proceeds from issuance of bonds	—	113,720	—	113,720	—
Principal paid on capital obligations	—	(9,765)	—	(9,765)	—
Refunded bond escrow agent	—	(68,295)	—	(68,295)	—
Interest paid on capital obligations	—	(10,814)	—	(10,814)	—
Acquisition of capital assets	(24)	(5,253)	—	(5,277)	(120)
Net cash provided by (used for) capital and related financing activities	(24)	19,593	—	19,569	(120)
Cash flows from investing activities:					
Interest on investments	543	61	—	604	342
Net cash provided by investing activities	543	61	—	604	342
Net increase (decrease) in cash and cash equivalents	(1,768)	41,373	1,202	40,807	(2,656)
Cash and cash equivalents, July 1	21,681	4,842	1,041	27,564	38,172
Cash and cash equivalents, June 30	$ 19,913	$ 46,215	$ 2,243	$ 68,371	$ 35,516
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	363,980	(11,286)	78,518	431,212	(2,180)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	132	10,466	—	10,598	153
Other revenue (expense) and transfers in (out)	277	257	598	1,132	25
Net changes in assets and liabilities:					
Receivables, net	(2,679)	(225)	5,619	2,715	(9,575)
Inventory	(345)	—	—	(345)	135
Deferred outflows of resources	(811)	—	—	(811)	—
Prepaid items	(1)	391	—	390	(166)
Due to / due from transactions	(113)	—	(67)	(180)	—
Accounts and other payables	2,815	(89)	—	2,726	1,722
Accrued expenses	25	—	(2)	23	5,023
Net pension liability	608	—	—	608	—
Net OPEB liability	(47)	—	—	(47)	—
Deferred inflows of resources	424	—	—	424	—
Unearned revenue	(70)	467	(32)	365	—
Prize awards payable	1,884	—	—	1,884	—
Total adjustments	2,099	11,267	6,116	19,482	(2,683)
Net cash provided by (used for) operating activities	$ 366,079	$ (19)	$ 84,634	$ 450,694	$ (4,863)

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018
(Expressed in Thousands)

	Pension and Other Employee Benefit Trusts	Investment Trust Ocean State Investment Pool	Private Purpose Trusts	Agency Funds
Assets				
Cash and cash equivalents	$ 13,888	$ —	$ 7,013	$ 16,733
Deposits held as security for entities doing business in the State	—	—	—	53,015
Advance held by claims processing agent	811	—	—	—
Receivables				
Contributions	34,302	—	—	—
Due from State for teachers	19,303	—	—	—
Due from other plans	—	—	—	—
Other	1,812	—	—	—
Miscellaneous	1	8	556	3,684
Total receivables	55,418	8	556	3,684
Prepaid expenses	4,488	—	—	—
Due from other plans	2,076	—	—	—
Investments, at fair value				
Equity in short-term investment fund	—	16,390	—	—
Equity in pooled trusts	8,602,211	—	—	—
Other investments	858,877	—	6,045,364	—
Total investments	9,461,088	16,390	6,045,364	—
Total assets	9,537,769	16,398	6,052,933	73,432
Liabilities				
Accounts payable	3,405	11	17,468	3,140
Due to other plans	2,076	—	—	—
Incurred but not reported claims	1,586	—	—	—
Due to other funds	3,725	—	—	—
Deposits held for others	—	—	—	70,292
Total Liabilities	10,792	11	17,468	$ 73,432
Net position				
Restricted for:				
Pension benefits	9,248,563	—	—	
Other postemployment benefits	278,414	—	—	
External investment pool participants	—	16,387	—	
Tuition savings program	—	—	6,032,519	
Other	—	—	2,946	
Total net position	$ 9,526,977	$ 16,387	$ 6,035,465	

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

	Pension and Other Employee Benefit Trusts	Investment Trust Ocean State Investment Pool	Private Purpose Trusts
Additions			
Contributions			
Member contributions	$ 205,592	$ —	$ —
Employer contributions	470,403	—	—
Supplemental employer contributions	1,059	—	—
State contributions for teachers	98,121	—	—
Interest on service credits purchased	101	—	—
Service credit transfer payments	17,571	—	—
From program participants	—	87,084	293,495
Total contributions	792,847	87,084	293,495
Other income	2,366	—	—
Investment income			
Net appreciation in fair value of investments	691,011	—	81,418
Interest	65,552	253	—
Dividends	37,999	—	126,360
Other investment income	208	—	—
	794,770	253	207,778
Less: investment expense	79,171	22	—
Net investment income	715,599	231	207,778
Total additions	1,510,812	87,315	501,273
Deductions			
Retirement benefits	949,714	—	—
Death benefits	3,481	—	—
Distributions	16,262	87,125	—
Program participant redemptions	—	—	841,368
Refund of contributions	6,374	—	—
Administrative expense	9,909	—	32,974
Service credit transfers	17,571	—	—
OPEB benefits	32,563	—	—
Total deductions	1,035,874	87,125	874,342
Change in net position restricted for:			
Pension benefits	424,942	—	—
Other postemployment benefits	49,996	—	—
External investment pool participants	—	190	—
Tuition Savings Program	—	—	(373,245)
Other	—	—	176
Fiduciary net position - beginning	9,052,039	16,197	6,408,534
Fiduciary net position - ending	$ 9,526,977	$ 16,387	$ 6,035,465

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Combining Statement of Net Position
Component Units
June 30, 2018
(Expressed in Thousands)

	RIAC	RICC	I-195 RDC	RIPTA	RITBA
Assets and deferred outflows of resources					
Current Assets:					
Cash and cash equivalents	$ 48,426	$ 5,380	$ 44	$ 8,837	$ 11,929
Investments	—	—	—	208	—
Receivables (net)	18,186	1,531	471	6,011	75
Restricted assets:					
Cash and cash equivalents	23,174	79,490	23,836	—	10,544
Investments	—	3,938	—	—	60,585
Receivables (net)	—	16	—	—	—
Other assets	—	—	—	—	891
Due from primary government	171	3,222	1,106	9,225	1,689
Due from other governments	—	—	15	—	—
Due from other component units	—	16	—	—	—
Inventories	—	—	—	1,628	36
Other assets	857	476	51	185	125
Total current assets	90,814	94,069	25,523	26,094	85,874
Noncurrent Assets:					
Investments	—	885	—	1,331	16,350
Receivables (net)	—	4,379	—	—	—
Restricted assets:					
Cash and cash equivalents	55,398	10,597	—	—	—
Investments	8,870	13,243	—	—	—
Receivables (net)	2,003	227	—	—	—
Other assets	—	—	—	—	—
Capital assets - nondepreciable	54,461	129	—	6,588	1,729
Capital assets - depreciable (net)	506,368	1,011	—	119,177	212,301
Due from other component units	—	—	—	—	—
Other assets, net of amortization	817	—	319	—	—
Total noncurrent assets	627,917	30,471	319	127,096	230,380
Total assets	718,731	124,540	25,842	153,190	316,254
Deferred outflows of resources	1,053	804	—	21,280	—
Liabilities and deferred inflows of resources					
Current liabilities:					
Accounts payable	2,496	719	284	15,169	1,978
Due to primary government	—	224	—	886	307
Due to other component units	615	—	—	—	—
Unearned revenue	845	2,496	133	41	5,057
Other liabilities	12,157	1,446	1,382	9,608	5,992
Current portion of long-term debt	17,312	2,991	1,420	—	4,225
Total current liabilities	33,425	7,876	3,219	25,704	17,559
Noncurrent liabilities:					
Due to primary government	180	—	—	11,177	—
Due to other component units	1,325	—	—	—	—
Unearned revenue	—	8,349	—	—	—
Notes payable	—	—	—	—	—
Loans payable	—	—	—	—	—
Obligations under capital leases	2,103	—	—	—	—
Net pension liability	2,136	389	—	61,471	—
Net OPEB liability	437	68	—	72,119	—
Other liabilities	—	26,810	—	12,079	—
Compensated absences	—	—	—	225	—
Bonds payable	310,024	15,828	36,980	—	172,893
Total noncurrent liabilities	316,205	51,444	36,980	157,071	172,893
Total liabilities	349,630	59,320	40,199	182,775	190,452
Deferred inflows of resources	239	595	—	1,995	—
Net position (deficit)					
Net investment in capital assets	260,094	1,134	—	113,704	52,945
Restricted for:					
Debt	8,415	—	—	—	70,590
Other	47,167	—	23,950	—	—
Other nonexpendable	—	76,035	—	—	—
Unrestricted	54,239	(11,740)	(38,307)	(124,004)	2,267
Total net position (deficit)	$ 369,915	$ 65,429	$ (14,357)	$ (10,300)	$ 125,802

(Continued)

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Combining Statement of Net Position
Component Units
June 30, 2018
(Expressed in Thousands)

	URI	RIC	CCRI	Other Component Units	Totals
Assets and deferred outflows of resources					
Current Assets:					
Cash and cash equivalents	$ 147,661	$ 30,609	$ 14,027	$ 94,310	$ 361,223
Investments	—	—	—	6,828	7,036
Receivables (net)	48,523	7,169	3,388	27,041	112,395
Restricted assets:					
Cash and cash equivalents	—	—	343	526,829	664,216
Investments	—	—	—	164,417	228,940
Receivables (net)	—	—	—	85,282	85,298
Other assets	—	—	—	54,672	55,563
Due from primary government	3,714	2,714	2,028	4,034	27,903
Due from other governments	—	—	—	691	706
Due from other component units	1,585	—	—	856	2,457
Inventories	3,275	—	836	2,650	8,425
Other assets	3,085	104	2,346	7,444	14,673
Total current assets	207,843	40,596	22,968	975,054	1,568,835
Noncurrent Assets:					
Investments	166,178	27,655	4,034	80	216,513
Receivables (net)	21,486	2,667	139	1,212,557	1,241,228
Restricted assets:					
Cash and cash equivalents	515	561	—	3,145	70,216
Investments	—	—	—	195,018	217,131
Receivables (net)	—	—	—	—	2,230
Other assets	103,678	1,056	—	1,424,723	1,529,457
Capital assets - nondepreciable	95,607	30,019	5,708	82,779	277,020
Capital assets - depreciable (net)	612,213	154,257	80,146	195,513	1,880,986
Due from other component units	—	—	—	1,325	1,325
Other assets, net of amortization	2,019	1	—	162,168	165,324
Total noncurrent assets	1,001,696	216,216	90,027	3,277,308	5,601,430
Total assets	1,209,539	256,812	112,995	4,252,362	7,170,265
Deferred outflows of resources	40,601	12,699	9,573	23,857	109,867
Liabilities and deferred inflows of resources					
Current liabilities:					
Accounts payable	36,897	9,621	6,528	22,779	96,471
Due to primary government	2,042	1,506	725	20	5,710
Due to other component units	1,585	—	—	257	2,457
Unearned revenue	13,778	2,408	2,850	6,416	34,024
Other liabilities	4,228	7,353	5,041	406,973	454,180
Current portion of long-term debt	12,427	1,041	282	195,437	235,135
Total current liabilities	70,957	21,929	15,426	631,882	827,977
Noncurrent liabilities:					
Due to primary government	14,743	16,213	1,525	—	43,838
Due to other component units	—	—	—	—	1,325
Unearned revenue	—	—	—	204	8,553
Notes payable	—	758	—	139,497	140,255
Loans payable	576	—	—	8,518	9,094
Obligations under capital leases	1,230	—	—	9	3,342
Net pension liability	127,133	43,866	32,467	37,894	305,356
Net OPEB liability	51,187	26,763	21,149	17,183	188,906
Other liabilities	10,689	3,160	3	324,314	377,055
Compensated absences	17,920	769	265	2,348	21,527
Bonds payable	282,497	14,820	1,526	1,824,911	2,659,479
Total noncurrent liabilities	505,975	106,349	56,935	2,354,878	3,758,730
Total liabilities	576,932	128,278	72,361	2,986,760	4,586,707
Deferred inflows of resources	10,407	4,863	3,481	7,950	29,530
Net position (deficit)					
Net investment in capital assets	492,868	149,941	81,796	260,144	1,412,626
Restricted for:					
Debt	—	—	—	219,496	298,501
Other	91,801	15,528	2,428	648,608	829,482
Other nonexpendable	100,867	19,278	2,490	—	198,670
Unrestricted	(22,735)	(48,377)	(39,988)	153,261	(75,384)
Total net position (deficit)	$ 662,801	$ 136,370	$ 46,726	$ 1,281,509	$ 2,663,895

(Concluded)

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Combining Statement of Activities
Component Units
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

	RIAC	RICC	I-195 RDC	RIPTA	RITBA	URI	RIC	CCRI	Other Component Units	Totals
Expenses	$ 96,227	$ 42,080	$ 6,001	$ 132,798	$ 34,294	$ 552,646	$ 157,262	$ 130,089	$ 325,983	$ 1,477,380
Program revenues:										
Charges for services	89,653	5,751	915	23,249	21,105	340,288	67,750	38,200	220,916	807,827
Operating grants and contributions	—	40,946	4,700	83,814	23	199,900	78,861	85,209	89,886	583,339
Capital grants and contributions	24,117	—	—	3,453	15,714	65,083	23,690	8,370	37,403	177,830
Total program revenues	113,770	46,697	5,615	110,516	36,842	605,271	170,301	131,779	348,205	1,568,996
Net (Expenses) Revenues	17,543	4,617	(386)	(22,282)	2,548	52,625	13,039	1,690	22,222	91,616
General revenues:										
Interest and investment earnings	1,536	8,919	131	13	756	12,393	3,464	504	33,855	61,571
Miscellaneous revenue	77	415	—	—	132	—	588	—	2,312	3,524
Total general revenue	1,613	9,334	131	13	888	12,393	4,052	504	36,167	65,095
Change in net position	19,156	13,951	(255)	(22,269)	3,436	65,018	17,091	2,194	58,389	156,711
Net position (deficit) - beginning as restated	350,759	51,478	(14,102)	11,969	122,366	597,783	119,279	44,532	1,223,120	2,507,184
Net position (deficit) - ending	$ 369,915	$ 65,429	$ (14,357)	$ (10,300)	$ 125,802	$ 662,801	$ 136,370	$ 46,726	$ 1,281,509	$ 2,663,895

The notes to the financial statements are an integral part of this statement.

Index

Note 1.Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying basic financial statements of the State of Rhode Island and Providence Plantations (the State) and its component units have been prepared in conformance with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

The accompanying financial statements include all funds of the State and its component units. GASB defines component units as legally separate organizations for which the elected officials of the primary government (such as the State) are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with the State are such that exclusion from the State's financial statements would cause the statements to be misleading.

GASB has set forth criteria to be considered in determining financial accountability. The primary government (the State) is financially accountable if it appoints a voting majority of the entity's governing body **and** (1) it is able to impose its will on that entity **or** (2) there is a potential for the entity to provide specific financial benefits to, or to impose specific financial burdens on, the State. Also, the State is financially accountable if an entity is fiscally dependent on the State and there is the potential for the entity to provide specific financial benefits to, or to impose specific financial burdens on, the State, regardless of the State's appointment power over the governing body.

In accordance with GAAP, entities such as local school districts, charter schools, and other local authorities that may only partially meet the criteria for inclusion in this report have not been included. The State's financial support for the public education system is reported in the General Fund.

Blended Component Units

A component unit is reported as part of the primary government and blended into the appropriate funds in any of the following circumstances:

- The component unit provides services entirely or almost entirely to the primary government, or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it; or

- The component unit's governing body is substantively the same as the governing body of the primary government and (a) there is a financial benefit or burden relationship between the primary government and the component unit, or (b) management of the primary government has operational responsibility for the component unit; or

- The component unit's total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government.

For each blended component unit the potential exists for a financial burden or benefit to be imposed on the State as a result of the existence of the component unit. Also, for the blended component units included in the State's CAFR, the State, generally acting through the Governor, appoints a voting majority of the component units' governing boards.

The following component units are reported as part of the primary government in both the fund and government-wide financial statements.

Rhode Island Convention Center Authority (RICCA)

The RICCA was established by State law as a single purpose building authority to finance the development of convention and other event facilities in Providence, RI. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veterans Memorial Auditorium Arts and Cultural Center located in Providence. RICCA is dependent upon annual State appropriations of lease revenue by the General Assembly to fund debt service on its outstanding bonds; therefore RICCA's total debt outstanding, including leases, is expected to be repaid entirely with the resources of the State. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Convention Center Authority, One LaSalle Square, Providence, RI 02903 or at www.riconvention.com.

Tobacco Settlement Financing Corporation (TSFC)

TSFC was organized in June 2002 as a public corporation by the State. TSFC is legally separate and provides services exclusively to the State through the purchase of its future tobacco settlement revenues. TSFC is authorized to issue bonds necessary to provide sufficient funds for carrying out its purpose.

The Corporation recognizes receivables and revenue with respect to Tobacco Settlement Revenues (TSRs) based on the domestic shipment of cigarettes. The Corporation accrues at June 30th for TSRs that are derived from estimated sales of cigarettes from January 1 to June 30. This accrual is estimated based upon the historical TSR payments for the prior three fiscal years.

The GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* (the Statement), effective for financial statement periods beginning on or after December 15, 2006. The Statement required restatement of prior period financial statements, except for the deferral requirements relative to sales of future revenues which were permitted to be applied prospectively.

As allowed under GASB Statement No. 48, the Corporation and the State elected to not retroactively apply the deferral requirements to its 2002 and 2007 TSR sales completed prior to the effective date. In accordance with accounting standards in effect at the time of the 2002 and 2007 TSR sales, the State fully recognized the amount received for its sale of future TSRs to the TSFC as revenue in those years.

For more detailed information, a copy of the financial statements can be obtained by writing to the Tobacco Settlement Financing Corporation, One Capitol Hill, Providence, RI 02908.

Rhode Island Public Rail Corporation (RIPRC)

This corporation was created and established for the purpose of enhancing and preserving the viability of commuter rail operations in the State. Currently its primary purpose, as outlined in the State's General Laws, is to provide indemnity for rail service operating within the State. The State is fully responsible for reimbursing RIPRC for all costs associated with the purchase of such insurance coverage. RIPRC provides services exclusively to the State. Separately issued financial statements are not available for RIPRC.

Discretely Presented Component Units

Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading.

For each discretely presented component unit the potential exists for a financial burden or benefit to be imposed on the State as a result of the existence of the component unit. For the discretely presented component units included in the State's CAFR, the State, generally acting through the Governor, appoints a voting majority of the component units' governing boards. These discretely presented component units primarily serve or benefit those outside of the primary government.

The State distinguishes between major and nonmajor component units based upon the nature and significance of the component unit's relationship to the State. The factors underlying this determination include the type and dollar value of services provided to the citizens of the State, the presence of significant transactions with the State, and a significant benefit or burden relationship with the State. Discretely presented component units, grouped by major and nonmajor categories, are as follows:

Major Component Units

Rhode Island Airport Corporation (RIAC)

This corporation was created in 1992 and its purpose is to undertake the management, operation, maintenance and improvements of the six airports in the State. Revenues of RIAC include airline and concession contract revenues, federal grants, licenses, and permits. RIAC leases the land on which the State's largest airport is located from the State and reimburses the State annually for general obligation proceeds utilized for certain airport projects. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, Rhode Island Airport Corporation, 2000 Post Road, Warwick, RI 02886 or at www.pvdairport.com.

Rhode Island Commerce Corporation (RICC)

This corporation was created in 1995 and its purpose is to promote and encourage the preservation, expansion, and sound development of new and existing industry, business, commerce, agriculture, tourism, and recreational facilities in the State, so as to promote economic development. RICC has the power to issue tax-exempt bonds to accomplish its corporate purpose. RICC has one component unit, the Small Business Loan Fund Corporation, which was created for the purpose of granting secured and unsecured loans to Rhode Island's small business community. RICC's activities are largely supported by State appropriations and RICC has used its debt issuance authority to finance various economic development initiatives on behalf of the State. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Commerce Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at www.commerceri.com.

I-195 Redevelopment District Commission (I-195 RDC)

This commission was created in 2011 by the Rhode Island General Assembly, to oversee, plan, implement, and administer the development of land reclaimed from the Interstate 195 relocation project and the Washington Bridge project. The I-195 RDC issued debt and utilized the proceeds to reimburse the State for the fair value of the land acquired. The State appropriates amounts to the I-195 RDC for debt service and operating assistance until sufficient land sale proceeds are available to fund these expenses. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R. I. Commerce Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at www.195district.com.

Rhode Island Public Transit Authority (RIPTA)

This authority was established in 1964 to acquire any mass motor bus transportation system that has filed a petition to discontinue its service, provided that the Authority has determined it to be in the public interest to continue such service. Revenues of RIPTA include passenger revenue, a portion of the tax on gasoline and operating assistance grants from the State and federal governments. In addition to significant operating assistance, the State has also forgiven certain debt service obligations owed to the State as a means to provide additional financial assistance to the Authority. For more detailed information, a copy of the financial statements can be obtained by writing to the Finance Department, R.I. Public Transit Authority, 705 Elmwood Avenue, Providence, RI 02907, or at www.ripta.com.

Rhode Island Turnpike and Bridge Authority (RITBA)

This authority was created by the General Assembly as a body corporate and politic, with powers to construct, acquire, maintain and operate bridge projects as defined by law. RITBA is responsible for the maintenance and operation of the Claiborne Pell, Mount Hope, Jamestown, and Sakonnet River Bridges which are a vital segment of the State's infrastructure. In addition, the Authority is responsible for the collection of toll revenue from the users of the Claiborne Pell Bridge and provides back office functions for the State's truck tolling initiative that began on June 11, 2018. Title relating to the Jamestown and Sakonnet River bridges has remained with the State, thus those capital assets are reported within the primary government on the State's government-wide financial statements. The Claiborne Pell and Mount Hope bridges are reported as capital assets of RITBA. For more detailed information, a copy of the financial statements can be obtained by writing to the Executive Director, R.I. Turnpike and Bridge Authority, P.O. Box 437, Jamestown, RI 02835-0437, or at www.ritba.org.

University and Colleges

The Board of Education has oversight responsibility for the University of Rhode Island, Rhode Island College and the Community College of Rhode Island. The university and colleges are funded through State appropriations, tuition, federal grants, and private donations and grants. For more detailed information, a copy of the financial statements can be obtained by writing to Office of the Controller, University of Rhode Island, 75 Lower College Road, Kingston, RI 02881; Office of the Controller, Rhode Island College, 600 Mount Pleasant Avenue, Providence, RI 02908; and Office of the Controller, Community College of Rhode Island, 400 East Avenue, Warwick, RI 02886-1805. The financial statements can also be viewed at www.riopc.edu.

Nonmajor Component Units

Central Falls School District

The Central Falls School District (the District) is governed by a seven member board of trustees that is appointed by the State's Board of Education (Board). As a result of the enactment of Chapter 312 of Rhode Island Public Laws of 1991, the State assumed responsibility for the administration and operational funding of the District effective July 1, 1991. In June 2002, Chapter 16-2 of the Rhode Island General Laws established the board of trustees to govern the District in a manner consistent with most local school committees. In addition, the Commissioner of Elementary and Secondary Education and the Board have oversight over the development and approval of the District's operating budget and for other significant operating decisions and contracts. The District, which provides elementary and secondary education to residents of the City of Central Falls, is funded primarily through State appropriations and federal grant funds. For more detailed information, a copy of the financial statements can be obtained by writing to the Central Falls School District, 949 Dexter Street – Lower Level, Central Falls, RI 02863-1715.

Division of Higher Education Assistance (DHEA)

DHEA was established on July 1, 2015 by an Act of the Rhode Island General Assembly for the dual purpose of guaranteeing loans to students in eligible institutions and administering other programs of post-secondary student financial assistance assigned by law to the Division. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, Office of Postsecondary Commissioner, Division of Higher Education Assistance, 560 Jefferson Boulevard, Warwick, RI 02886, or at www.riopc.edu.

Rhode Island Housing and Mortgage Finance Corporation (RIHMFC)

This corporation, established in 1973, was created in order to expand the supply of housing available to persons of low and moderate income and to stimulate the construction and rehabilitation of housing and health care facilities in the State. It has the power to issue notes and bonds to achieve its corporate purpose. Certain debt issued by RIHMFC is secured in part by capital reserve funds. The General Assembly may, but is not required to, appropriate funding of any deficiencies in such reserves. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, R.I. Housing and Mortgage Finance Corporation, 44 Washington Street, Providence, RI 02903-1721, or at www.rihousing.com.

Rhode Island Industrial Facilities Corporation (RIIFC)

The purpose of this corporation is to issue revenue bonds, construction loan notes and equipment acquisition notes for the financing of projects which further industrial development in the State. All bonds and notes issued by RIIFC are payable solely from the revenues derived from leasing or sale by RIIFC of its projects. The bonds and notes do not constitute a debt or pledge of the faith and credit of RIIFC or the State and, accordingly, have not been reported in the accompanying financial statements. Certain obligations of RIIFC are secured by mortgages which are insured by the Rhode Island Industrial-Recreational Building Authority for which the State's full faith and credit is pledged. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Industrial Facilities Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at www.commerceri.com.

Rhode Island Industrial-Recreational Building Authority (RIIRBA)

This authority is authorized to insure first mortgages and first security agreements granted by financial institutions and the Rhode Island Industrial Facilities Corporation for companies conducting business in the State. RIIRBA's insurance of first mortgages and first security agreements is backed by a pledge of the full faith and credit of the State. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Industrial-Recreational Building Authority, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at www.commerceri.com.

Rhode Island Resource Recovery Corporation (RIRRC)

This corporation was established in 1974 in order to provide and/or coordinate solid waste management services to municipalities and persons within the State. RIRRC has the power to issue negotiable bonds and notes to achieve its corporate purpose. RIRRC coordinates and administers a statewide recycling program and has periodically transferred amounts to the State's general fund as operating assistance. The State is one of several potentially responsible parties for the costs of remedial actions at RIRRC's superfund site. For more detailed information, a copy of the financial statements can be obtained by writing to R.I. Resource Recovery Corporation, 65 Shun Pike, Johnston, RI 02919, or at www.rirrc.org.

Quonset Development Corporation (QDC)

This corporation was established in 2004 as a real estate development and management company for the Quonset Point/Davisville Industrial Park. Its purpose is to promote the preservation, expansion, and development of new and existing industry and business, in order to stimulate and support diverse employment opportunities in the State. The State has provided funding for certain capital improvements required at the industrial park to aid in its expansion and development. For more detailed information, a copy of the financial statements can be obtained by writing to the Finance Director, Quonset Development Corporation, 95 Cripe Street, North Kingstown, RI 02852 or at www.quonset.com.

The Metropolitan Regional Career and Technical Center

The Metropolitan Regional Career and Technical Center (The Met) is a State funded, local education agency established by the R.I. Department of Education under the Rhode Island General Laws. The Met serves approximately 800 students statewide in grades 9-12. It is governed by a board of trustees that is appointed by the State's Board of Education. The Met is funded primarily through State appropriations and federal grant funds. In addition, it conducts its operations in facilities that are owned by the State. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, The Metropolitan Regional Career and Technical Center, 325 Public Street, Providence, RI 02905.

Rhode Island Infrastructure Bank (RIIB)

This agency was established in 1989 as the R.I. Clean Water Finance Agency for the purpose of providing financial assistance in the form of loans to municipalities, businesses and homeowners in the State for the construction or upgrading of water pollution abatement, energy efficiency, brownfield remediation and climate resiliency projects. RIIB receives capital grants from the State and federal governments and is authorized to issue revenue bonds and notes. In conjunction with the creation of the Municipal Road and Bridge Revolving Fund (MRBRF) which was established to provide municipalities with low-cost financial assistance for road and bridge projects, the agency name was changed to the Rhode Island Infrastructure Bank. RIIB is considered to be a discretely presented component unit due in large part to its management of the MRBRF on behalf of the State. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Infrastructure Bank, 235 Promenade Street, Suite 119, Providence, RI 02908 or at www.riib.org.

Rhode Island Health and Educational Building Corporation (RIHEBC)

RIHEBC was established to assist eligible institutions in the educational and healthcare fields in Rhode Island in gaining access to capital. RIHEBC also remains proactive in developing cost-effective programs, offering staff assistance, and providing technical resources that benefit these institutions. RIHEBC also assists the State in administering the School Building Authority Capital Fund (SBACF) in order to address high priority local school capital projects in communities with limited financial resources. RIHEBC has administrative duties related to the management and custody of monetary assets of the SBACF, including establishing a trust to hold related funds, creating and maintaining SBACF's accounting records and the distribution and management of SBACF's award and loan programs. RIHEBC was determined to be a discretely presented component unit largely due to its support in administering the SBACF.

For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, Rhode Island Health and Educational Building Corporation, 50 Dorrance Street, Suite 300, Providence, RI 02903 or at www.rihebc.com.

Related Organizations

The Rhode Island Student Loan Authority and Narragansett Bay Commission are "related organizations" of the State under GAAP as defined by GASB. The State is responsible for appointing a voting majority of the members of each entity's board, however, the State's accountability does not extend beyond the appointments. These entities do not meet the criteria for inclusion as component units of the State and therefore are not included in these financial statements.

C. Financial Statement Presentation

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Net Position presents the reporting entity's nonfiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. The net position is reported in three categories:

> **Net investment in capital assets** – This category reflects the portion of net position associated with capital assets, net of accumulated depreciation and the amount of outstanding bonds and other debt attributable to the acquisition, construction or improvement of those assets.
>
> **Restricted** – This category represents the portion of net position whose use is subject to constraints that are either a) imposed externally by creditors, grantors or contributors, or b) imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This category represents the portion of net position that does not meet the definition of the two preceding categories. The use of the unrestricted net position is often subject to constraints imposed by management, but such constraints can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are specifically associated with a service, program, or department and, thus, are clearly identifiable to a particular function. The State includes certain centralized services charged through internal service funds as direct expenses by charging these amounts directly to departments and programs. The State does not allocate indirect costs amongst the functional expenditure categories.

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and enterprise funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column.

The State reports the following fund types:

Governmental Fund Types

Special Revenue Funds **-** These funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes and where a separate fund is legally mandated.

Capital Projects Funds **-** These funds reflect transactions related to resources received and used for the acquisition, construction, or improvement of capital facilities of the State and its component units.

Debt Service Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds are used to report resources if legally mandated or when financial resources are being accumulated for principal and interest maturing in future years.

Permanent Fund **-** The Permanent School Fund accounts for certain resources and the earnings thereon, which are used for the promotion and support of public education.

Proprietary Fund Types

Internal Service Funds **-** These funds account for, among other things, employee medical benefits, State fleet management, unemployment and workers' compensation for State employees, human resources administration, facilities maintenance, information technology, prison industry operations, surplus property, telecommunications and other utilities, and records maintenance.

Enterprise Funds **-** These funds may be used to report any activity for which a fee is charged to external users for goods and services.

Fiduciary Fund Types

Pension and Other Employee Benefit Trust Funds

Pension Trust Funds **-** These funds account for the activities of the Employees' Retirement System, Municipal Employees' Retirement System, State Police Retirement Benefit Trust, Judicial Retirement Benefit Trust, Rhode Island Judicial Retirement Fund Trust, State Police Retirement Fund Trust, Teachers' Survivors Benefit Plan, FICA Alternative Retirement Income Security Program, and the defined contribution retirement plan, which all accumulate resources for pension benefit payments to eligible retirees.

Other Employee Benefit Trust Funds - These funds account for the activities of the Rhode Island State Employees' and Electing Teachers OPEB System, which accumulates resources to provide postemployment health care benefits to eligible retirees.

Investment Trust Fund - This fund accounts for the share of the Ocean State Investment Pool that is owned by participants external to the reporting entity.

Private Purpose Trust Funds

The Rhode Island Higher Education Savings Trust (RIHEST) administers the CollegeBound Saver fund which was established as part of the Rhode Island Tuition Savings Program (Program) to enable residents of any state to save money on a tax-advantaged basis, to pay qualified higher education expenses of their designated beneficiaries. All assets of the Program are held for the benefit of Program participants.

The Touro Jewish Synagogue Fund accounts for the earnings on monies bequeathed to the State for the purpose of maintaining the Touro Jewish Synagogue.

Agency Funds **-** These funds account for assets held by the State pending distribution to others, assets pledged to the State as required by statute, and health insurance for certain employees and retirees of a component unit.

In accordance with GAAP for government as prescribed by the GASB, the focus in the fund financial statements is on major and nonmajor funds rather than on fund type. The general fund is a major fund. Other governmental funds and enterprise funds are evaluated on these criteria:

- Total assets and deferred outflows, liabilities and deferred inflows, resources/revenues, **or** expenditures/expenses of that fund are at least 10% of the respective total for all funds of that type, **and**

- Total assets and deferred outflows, liabilities and deferred inflows, resources/revenues, **or** expenditures/expenses of that fund are at least 5% of the **same** respective total for all funds being evaluated.

Major Funds

Governmental funds:

General Fund

This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Intermodal Surface Transportation Fund

This fund accounts for the collection of the gasoline tax, federal grants, bond proceeds, Rhode Island Capital Plan funds, tolls and certain motor vehicle registration and licensing surcharges, that are used in maintenance, upgrading, and construction of the State's highway system. It also accounts for the proceeds from the Grant Anticipation Revenue Vehicle (GARVEE) bonds, the RI Motor Fuel Tax (RIMFT) revenue bonds, the I-195 Redevelopment District Commission bonds, the Mission 360 Loan Program, RI Bridge Maintenance Fund tolls, and related expenditures. Management considers this a major fund regardless of the above criteria.

Proprietary funds:

Rhode Island Lottery

The R.I. Lottery, a division of the Department of Revenue, operates games of chance for the purpose of generating resources for the State's General Fund. For more detailed information, a copy of the financial statements can be obtained by writing to the Rhode Island Lottery, 1425 Pontiac Avenue, Cranston, RI 02920, or at www.rilot.com.

Rhode Island Convention Center Authority (RICCA)

The RICCA was established by State law as a single purpose building authority to finance the development of convention and other event facilities in Providence, RI. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veterans Memorial Auditorium Arts and Cultural Center located in Providence.

Employment Security Fund

This fund accounts for the State's unemployment compensation program. Revenues consist of taxes assessed on employers to pay benefits to qualified unemployed persons. Funds are also provided by the federal government and interest income. Management considers this a major fund regardless of the above criteria.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes, grants and donations are nonexchange transactions, in which the State receives value without directly giving equal value in exchange. Tax revenue is recognized in the fiscal year in which the related sales, wages, or activity being taxed occurred.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues and related receivables are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period (i.e., earned and collected within the next 12 months) or soon enough thereafter to pay liabilities of the current period. Significant sources of tax revenues susceptible to accrual are recorded as taxpayers earn income (personal income and business corporation taxes), as sales are made (sales and use taxes) and as other taxable events occur (miscellaneous taxes), net of estimated tax refunds. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures for principal and interest on long-term debt and compensated absences are recorded when payments come due. Expenditures and liabilities relating to other claims and judgments are recorded to the extent that such amounts are expected to be paid within the current period.

All proprietary and trust funds are accounted for using the economic resources measurement focus. With this measurement focus, all assets, liabilities, deferred outflows of resources, and deferred inflows of resources associated with the operations of these funds are included on their respective statements of net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

All proprietary and trust funds are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Agency funds are a type of fiduciary fund used to account for the assets held for distribution by the State as an agent for another entity for which the government has custodial responsibility and accounts for the flow of assets. Agency funds have no measurement focus. In an agency fund financial statement, assets equal liabilities and there is no net position.

The State’s enacted budget designates the source of funds for expenditures. When a type of expenditure is allocable to multiple funding sources, generally the State uses restricted resources first, then unrestricted resources as they are needed.

E. Cash and Cash Equivalents

Cash represents amounts in demand deposit accounts with financial institutions. Cash equivalents are highly liquid investments with a maturity of three months or less at the time of purchase. Cash equivalents are stated at cost, which approximates fair value except for those of the Ocean State Investment Pool and other money market mutual funds which are stated at amortized cost, which approximates fair value.

Except for certain internal service funds, the State does not pool its cash deposits. For those internal service funds that pool cash, each fund reports its share of the cash on the Statement of Net Position.

F. Funds on Deposit with Fiscal Agent

Funds on deposit with fiscal agent in the governmental activities and business-type activities represent the unexpended portion of debt instruments sold primarily for capital acquisitions and historic tax credit financing, as well as funds held by the United States Treasury for the payment of unemployment benefits.

G. Investments

Investments have a maturity of more than three months and are generally stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

H. Receivables

Receivables are stated net of estimated allowances for uncollectible amounts, which are determined based upon past collection experience. Within governmental funds, an allowance for unavailable amounts (amounts not expected to be collected in the next twelve months) is also reflected.

I. Due From Other Governments and Agencies

Due from other governments and agencies is primarily comprised of amounts due from the federal government for reimbursement-type grant programs.

J. Interfund Activity

In general, eliminations have been made to minimize the double counting of internal activity, including internal service fund type activity, on the government-wide financial statements. However, in order to avoid distorting the direct costs and program revenues of the applicable functions, interfund services provided and used between different functional categories have not been eliminated.

The Due From/To Other Funds are reported at the net amount on the fund financial statements. Transfers between governmental and business-type activities are reported at the net amount on the government-wide financial statements.

In the fund financial statements, transactions for services rendered by one fund to another are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund. Reimbursements of expenditures/expenses made by one fund for another are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the reimbursed fund. Transfers represent flows of assets between funds of the primary government without equivalent flows of assets in return and without a requirement for payment.

K. Inventories

Inventory type items acquired by governmental funds are accounted for as expenditures at the time of purchase. Inventories of the proprietary funds are stated at cost (first-in, first-out). Certain inventories of the University and Colleges are held for resale, and are stated at the lower of cost or market (retail inventory method). Other University and Colleges' inventory consists of supplies and are stated at cost (first in, first out). All inventories of the University and Colleges consist primarily of bookstore and dining, health and residential life services items. Inventories of all other component units are stated at cost.

L. Capital Assets

Capital assets, which include land, intangible assets not being amortized, construction in progress, land improvements, buildings, building improvements, furniture and equipment (which also includes subcategories for vehicles and computer systems), depreciable intangibles (computer software), and infrastructure (e.g., roads, bridges, dams, piers) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at fair value at the date of donation. Intangible assets not being amortized consist mostly of perpetual land rights such as conservation, recreational, and agricultural easements.

Applicable capital assets are depreciated or amortized using the straight-line method (using a half-year convention). Capitalization thresholds and estimated useful lives for depreciable capital asset categories of the primary government are as follows:

Asset Category	Capitalization Thresholds	Estimated Useful Lives
Capital Assets (Depreciable)		
Land improvements	$1 million	20 years
Buildings	No minimum	20 - 50 years
Building Improvements	$1 million	10 - 20 years
Furniture and equipment	$5 thousand	3 - 10 years
Intangibles (including computer software)	$2 million	5 - 10 years
Infrastructure	$1 million	7 - 75 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest incurred during the construction of capital facilities is not capitalized, with the exception of the Convention Center Authority, an enterprise fund.

Capital assets acquired in the governmental funds are recorded as capital outlay expenditures in capital projects funds and current expenditures by function in other governmental fund financial statements.

Depreciation and amortization are recorded in the government-wide financial statements, proprietary funds, fiduciary funds and component unit financial statements. Capital assets of the primary government are depreciated using the straight-line method over the assets' estimated useful lives.

The State has recorded its investment in intangible assets, which includes certain land rights such as conservation and agricultural easements as well as certain rights of way obtained by the State. These easements tend to be of a perpetual nature and thus are not amortized. Intangible assets also include computer software, which is amortized over a 5-10 year period. The State has included its investment in intangible assets within Note 5, Capital Assets.

Discretely presented component units have adopted estimated useful lives for their capital assets as well as capitalization thresholds. These entities depreciate capital assets using the straight-line method.

M. Bonds Payable

In the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds, bond discounts, premiums, and issuance costs are recognized in the current period. In the government-wide financial statements bond discounts, premiums, and deferred gains and losses on refundings are deferred and amortized over the term of the bonds using the outstanding principal method.

For proprietary fund types and component units, bond discounts, premiums and deferred gains and losses on refundings are generally deferred and amortized over the term of the bonds using the interest method.

Bond premiums and discounts are presented as adjustments to the face amount of the bonds payable. Deferred gains and losses on refundings are presented as either deferred inflows of resources or deferred outflows of resources.

N. Obligations Under Capital Leases

The construction and acquisition of certain office buildings, campus facilities and other public facilities, as well as certain equipment acquisitions, have been financed through bonds and notes issued by a trustee pursuant to a lease/purchase agreement with the State or similar financing arrangements (See Note 6E).

O. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System (ERS) cost-sharing plan and the single-employer plans administered by the Employees' Retirement System of Rhode Island (System) and the additions to and deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the System. The primary government's proportionate share of pension amounts were further allocated to proprietary funds (the Lottery) based on the amount of employer contributions paid by each proprietary fund. For this purpose, benefit payments (including refunds of employee contributions), are recognized when due and payable and in accordance with the benefit terms. Investments are recorded at fair value.

As more fully explained in Note 14, a special funding situation exists with respect to local teachers for which the State funds 40% of actuarially determined contributions to the ERS plan. Accordingly, the financial statements reflect the State's proportionate share of the net pension liability, pension expense and deferred inflows/outflows related to this special funding situation.

As of the June 30, 2017 measurement date, the State administered one non-contributory (pay-as-you-go) plan covering certain retired judges. For the plan, the provisions of GASB Statement No. 73 have been implemented which are largely consistent with the provisions of GASB Statement No. 68 regarding recognition of the pension liability, pension expense and deferred inflows/outflows except there is no fiduciary net position accumulated to offset the total pension liability, and no employer contributions are made other than the amount needed to provide benefits on a pay-as you-go basis. See Note 14 for complete details of the State's reporting of this plan.

For certain employees participating in the LIUNA defined benefit pension plan (a non-governmental union sponsored plan), there is no required employer contribution and no pension expense is recorded in the financial statements. Consistent with the provisions of GASB Statement No. 78, which provides an exception for non-governmental sponsored plans, no determination of the proportionate net pension liability, pension expense, or deferred inflows or outflows, if any, is made for this cost-sharing defined benefit pension plan.

P. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the State Employees' and Electing Teachers OPEB System of the State of Rhode Island (the System) and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, the System recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments that have a maturity at the time of purchase of one year or less, which are reported at amortized cost which approximates fair value.

Q. Compensated Absences

Vacation pay may be discharged, subject to limitations as to carry-over from year to year, by future paid leave or by cash payment upon termination of service. Sick pay may be discharged by payment for an employee's future absence caused by illness or, to the extent of vested rights, by cash payment upon death or retirement. Also, an additional category of leave obligation has been established as a result of pay reductions taken by certain classes of employees. For governmental fund types, such obligations are recognized when paid. For the government-wide financial statements and proprietary fund types, they are recorded as liabilities when earned.

R. Other Assets and Liabilities

Other assets reported within the primary government mainly consist of deposits required by contract with the State's healthcare claims administrator. Other liabilities include 1) escrow deposits, accrued salary and fringe benefits for the governmental fund types; 2) accrued interest payable, accrued salaries, accrued vacation and sick leave for the proprietary fund types; and 3) escrow deposits, landfill closure costs, accrued expenses, and arbitrage and interest payable for the component units.

S. Fund Balances

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the State is bound to honor constraints on how specific amounts can be spent. More information about each category is presented below:

- Nonspendable – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

- Restricted – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by constitutional provisions, or (c) by law through enabling legislation enacted by the General Assembly.

- Committed – amounts that can only be used for specific purposes as established through the enactment of legislation by the General Assembly, and that remain binding unless modified or rescinded through subsequent legislative action. The underlying action that imposed the limitation must occur no later than the close of the fiscal year and must be binding unless repealed by the General Assembly.

- Assigned – amounts that are constrained by the State's intent that they be used for specific purposes. The intent is generally established by legislation enacted by the General Assembly and is implemented at the direction of the Governor.

- Unassigned – the residual classification for the State's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, followed by unrestricted resources. Unrestricted resources, when available for a particular use, are used in the following order: committed, assigned, and unassigned.

T. Recently Issued Accounting Standards

During the fiscal year ended June 30, 2018, the State adopted the following new accounting standards issued by GASB:

- GASB Statement No. 75, *Accounting, and Financial Reporting for Postemployment Benefits Other Than Pensions*
- GASB Statement No. 85, *Omnibus*
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*

The implementation of GASB Statement No. 75 improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. The implementation of this statement in fiscal 2018 required the restatement of net position in the government-wide financial statements, proprietary fund financial statements, and component unit financial statements at July 1, 2017 as the State and related entities recognized their proportionate share of the State's Net OPEB liability. See note 18G for details.

The implementation of GASB Statements No. 85 and No. 86 had no material impact on the State's financial Statements.

The State will adopt the following new accounting pronouncements in future years:

GASB Statement No. 83, *Certain Asset Retirement Obligations*, will be effective for reporting periods beginning after June 15, 2018. This Statement addresses the accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has a legal obligation to perform future retirements should recognize a liability related to the retirement of those assets.

GASB Statement No. 84, *Fiduciary Activities*, will be effective for reporting periods beginning after December 15, 2018. The objective of this Statement is to improve the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

GASB Statement No. 87, *Leases*, will be effective for reporting periods beginning after December 15, 2019. This Statement requires a lessee to recognize a lease liability and an intangible right to use leased assets. The lessor is required to recognize a lease receivable and a deferred inflow of resources.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, will be effective for reporting periods beginning after June 15, 2018. The Statement improves the financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* will be effective for reporting periods beginning after December 15, 2019. The objective of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. Additionally, the standard simplifies accounting for interest cost incurred before the end of a construction period.

Management has not yet determined the effect that the above GASB statements will have on the financial statements.

Note 2. Cash, Cash Equivalents, Investments, and Funds in Trust

A. Primary Government-Governmental and Business-Type Activities

Cash Deposits

Cash deposits include demand deposit accounts, interest-bearing deposit accounts, and certificates of deposit. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and the deposits are a) uncollateralized, b) collateralized with securities held by the pledging financial institution, or c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government were required to be collateralized at June 30, 2018 pursuant to this statutory provision. However, the State Investment Commission has instituted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to amounts ranging from 100%-102% of the balance of uninsured deposits. The percentage of collateral required is determined by the underlying classification of the collateral. Additionally, consistent with State Investment Commission guidelines, certain interest-bearing deposit accounts used as short-term investments require collateral ranging from 100%-102% of the outstanding balance. The percentage of collateral required is determined by the underlying classification of the collateral. The lone exception to the full collateralization requirement is the Ocean State Investment Pool Trust (OSIP or the Trust), which follows the 60 day time deposit rule, but otherwise does not require full collateralization. The investment objective of the OSIP's Cash Portfolio is to seek to obtain as high a level of current income as is generally consistent with the preservation of principal and liquidity within the OSIP's investment guidelines which are consistent with GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants*. While investment in the pool is not guaranteed or fully collateralized, certain investments within the pool are collateralized. At June 30, 2018, of the $447.8 million invested, $76.1 million were Collateralized Repurchase Agreements.

All of the bank balances of the primary government and its blended component units were either covered by federal depository insurance, collateralized by securities held by an independent third party in the State's or the blended component unit's name, or collateralized by a Federal Home Loan Bank Letter of Credit in the State's or the blended component unit's name.

Cash Equivalents and Investments

The State Investment Commission (Commission) is responsible for the investment of all State funds. Pursuant to Chapter 35-10 of the General Laws, the Commission may, in general, "invest in securities as would be acquired by prudent persons of discretion and intelligence in these matters who are seeking a reasonable income and the preservation of their capital."

The Ocean State Investment Pool Cash Portfolio (the Cash Portfolio) is a portfolio of the Ocean State Investment Pool Trust, which is an investment pool established by the General Treasurer of the State of Rhode Island under Declaration of Trust, dated January 25, 2012, under the Rhode Island Local Government

Investment Pool Act, G.L. 35-10.2, of the Rhode Island General Laws as amended, for the purpose of investing funds of, and funds under custody of agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State of Rhode Island. The Cash Portfolio, which began operations on March 6, 2012, is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants*.

OSIP has met the criteria outlined in GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants* to permit election to report its investments at amortized cost which approximates fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool is not to exceed 60 days. OSIP transacts with its participants at a stable net asset value ("NAV") per share. Investments reported at NAV are not subject to the fair value hierarchy. There are no participant withdrawal limitations.

A copy of the annual report for the Ocean State Investment Pool can be obtained by writing to the Office of the General Treasurer, 50 Service Avenue, Warwick, RI 02886.

Other short-term cash equivalent type investments are made by the General Treasurer in accordance with guidelines established by the Commission. Investments of certain blended component units are not made at the direction of the Commission, but are governed by specific statutes or policies established by their governing body.

Fair Value of Financial Instruments

GASB Statement No. 72—*Fair Value Measurement and Application*—establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available, of how the market would price the asset or liability. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Unadjusted quoted priced in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 - Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3 - Unobservable inputs for the asset or liability (supported by little or no market activity). Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the State's cash equivalents and investments (expressed in thousands) at June 30, 2018:

Pooled cash equivalents (at amortized cost)		
Financial Company Commercial Paper	$	206,993
Other Commercial Paper		1,000
Asset Backed Commercial Paper		40,223
U.S. Government Agency Repurchase Agreement		43,123
U.S. Treasury repurchase agreement		27,000
Other Repurchase Agreements		6,000
U.S.Treasury Debt		14,950
U.S. Government Agency Debt		17,654
Certificates of Deposit		62,100
Non-Negotiable Time Deposit		22,800
Other Instruments		6,000
Total Investments		447,843
Less: other liabilities in excess of other assets		(89)
Total investment pool		447,754
Less: funds held by fiduciary funds and discretely presented component units		
Amounts held by fiduciary trust funds:		
Pension trusts		251
Amounts held by discretely presented component units:		
URI		42,837
RIIB		14,243
RIC		10,033
RIIRBA		739
RIHEBC		6,359
Amounts held for external parties		16,387
Primary government pooled cash equivalents	$	356,905
Add: other primary government cash equivalents and investments		
Money Market Mutual Funds		56,356
Total primary government cash equivalents and investments	$	413,261
Cash equivalents and investments	$	413,261
Cash deposits and interest bearing deposits		429,560
Total cash, cash equivalents and investments	$	842,821
Statement of Net Position		
Cash and cash equivalents	$	748,367
Restricted cash and cash equivalents		94,454
Total cash, cash equivalents and investments	$	842,821

Of the State's restricted cash and cash equivalents totaling $94.5 million, $51.8 million is held by the Tobacco Settlement Financing Corporation and $42.7 million is held by the R.I. Convention Center Authority. Both entities are blended component units.

Investments held within the OSIP pooled trust are valued and net asset value per unit (NAV) is calculated daily. The OSIP pooled trust categorizes the inputs to valuation techniques used to value its investments into a disclosure hierarchy consisting of three levels as described previously. The securities held within the OSIP pooled trust are valued at amortized cost, which approximates fair value. Securities held within the

OSIP pooled trust are generally high quality and liquid; however, they are reflected as Level 2 in the hierarchy because the inputs used to determine fair value are not quoted prices in an active market.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the State will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either: a. the counterparty, or b. the counterparty's trust department or agent but not in the government's name. Pursuant to guidelines established by the SIC, securities purchased or underlying collateral are required to be delivered to an independent third party custodian for the investments of the primary government.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Based on SIC policy, the State's short-term investment portfolio is structured to minimize interest rate risk by matching the maturities of investments with the requirements for funds disbursement.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is mitigated by the State's minimum rating criteria policy, collateralization requirements, and the fact that maximum participation by any one issuer is limited to 35% of the total portfolio. Credit risk policies have been developed for investments in commercial paper.

As of June 30, 2018, information about the State's exposure to interest rate risk for pooled cash equivalents and investments (expressed in thousands) is as follows:

			Investment Maturities (in days)			
Investment Type	Fair Value	Amortized Cost	0-30	31-90	91-180	181-397
Financial Company Commercial Paper	$207,015	$ 206,993	$ 39,054	$109,969	$ 33,970	$ 24,000
Other Commercial Paper	1,000	1,000	1,000	—	—	—
Asset Backed Commercial Paper	40,223	40,223	7,996	32,227	—	—
U.S. Government Agency Repurchase Agreements	43,123	43,123	43,123	—	—	—
U.S. Treasury Repurchase Agreement	27,000	27,000	27,000	—	—	—
Other Repurchase Agreements	6,000	6,000	6,000	—	—	—
U.S. Treasury Debt	14,954	14,950	—	11,950	3,000	—
U.S. Government Agency Debt	17,654	17,654	9,987	7,667	—	—
Certificates of Deposit	62,102	62,100	57,100	5,000	—	—
Non-Negotiable Time Deposit	22,800	22,800	22,800	—	—	—
Other Instruments	6,000	6,000	6,000	—	—	—
	$447,871	$ 447,843	$220,060	$166,813	$ 36,970	$ 24,000

At June 30, 2018 information on investment ratings for pooled cash equivalents and investments (expressed in thousands) is as follows:

Investment Type	At Fair Value	Total Amortized Cost	Quality Ratings (1) A-1+	A-1	A-2
Financial Company Commercial Paper	$ 207,015	$ 206,993	$ 47,279	$ 159,714	$ —
Other Commercial Paper	1,000	1,000	—	—	1,000
Asset Backed Commercial Paper	40,223	40,223	—	40,223	—
U.S. Government Agency Repurchase Agreements	43,123	43,123	30,123	13,000	—
U.S. Treasury Repurchase Agreements	27,000	27,000	18,000	9,000	—
Other Repurchase Agreements	6,000	6,000	—	6,000	—
U.S. Treasury Debt	14,954	14,950	14,950	—	—
U.S. Government Agency Debt	17,654	17,654	17,654	—	—
Certificates of Deposit	62,102	62,100	47,100	15,000	—
Non-Negotiable Time Deposit	22,800	22,800	—	22,800	—
Other Instruments	6,000	6,000	6,000	—	—
	$ 447,871	$ 447,843	$ 181,106	$ 265,737	$ 1,000

(1) Moody's Investor Service, except where not available Standard & Poor's ratings are used.

The Ocean State Investment Pool has not been assigned credit quality ratings by rating agencies.

As of June 30, 2018, information about the State's exposure to interest rate risk and credit risk for non-pooled cash equivalents and investments (expressed in thousands) is as follows:

All the non-pooled cash equivalents and investments have a maturity date of less than one year.

Issuer	Fair Value (in thousands)	Type of Investment	Moody's Rating	Average Maturities in Days
Money Market Mutual Funds				
Fidelity Institutional Money Market Government Portfolio Class III	$ 1,117	Money Market	Aaa-mf	26
BlackRock Federal Fund Institutional Shares	3,212	Money Market	Aaa-mf	34
GS Financial Square Treasury Instruments Fund	52,027	Money Market	Aaa-mf	35
	$ 56,356			

Money market mutual funds are used as temporary cash management investments. The fair value of these money market funds reflects the net asset value reported by the fund administrator which is a stable $1 per unit. The underlying investments, which are short-term cash equivalent type investments are generally carried at amortized cost which approximates fair value. There are no participant withdrawal limitations.

Funds on Deposit with Fiscal Agent

Investments within the category – Funds on deposit with fiscal agent – are governed by specific trust agreements entered into at the time of the issuance of the related debt. The trust agreements outline the specifically permitted investments, including any limitations on credit quality and concentrations of credit risk.

The State's funds on deposit with fiscal agent reported in the governmental funds (expressed in thousands) at June 30, 2018 and the breakdown by maturity are as follows:

Investment Type	Fair Value	Less Than 1 year	1-5 years
U.S. Government Agencies	$ 157,842	$ 123,873	$ 33,969
Money Market Funds	89,918	89,918	—
Commercial Paper	46,855	46,855	—
Negotiable Certificates of Deposit	48,896	48,896	—
Investment Contracts	2,682	2,682	—
	$ 346,193	$ 312,224	$ 33,969
Cash	58		
Funds on Deposit with fiscal agent	$ 346,251		

The investments with fiscal agent (expressed in thousands) consist of the following:

Issuer	Fair Value	Moody's Rating	Maturities in Days
U.S. Government Agency Securities	$ 157,842	Aaa	see detail above
Money Market Funds			
BlackRock Federal Fund Institutional Shares	107	Aaa-mf	34
Dreyfus Government Cash Management Fund	51,542	Aaa-mf	17
Dreyfus Treasury & Agency Cash Management	5,950	Aaa-mf	29
Fidelity Investments Money Market Government Portfolio - Class III	8,942	Aaa-mf	26
First American Government Obligations Fund Class D	22,123	Aaa-mf	20
Invesco Government & Agency Portfolio - Short-Term	1,254	Aaa-mf	23
Commercial Paper			
American Honda Finance Corporation	4,978	P-1	72
Bank of Montreal Chicago	8,976	P-1	44
Credit Agricole CIB	6,982	P-1	44
BNP Paribas New York	4,978	P-1	72
BNP Paribas New York	1,995	P-1	44
MUFG Bank New York	4,978	P-1	72
MUFG Bank New York	1,995	P-1	44
Toyota Motor Corporation	11,973	P-1	41
Certificates of Deposit			
Sumitomo Mitsui Banking Corporation	7,000	P-1	44
Svenska Handelsbanken AB, New York	3,998	P-1	13
Toronto-Dominion Bank	11,999	P-1	44
Canadian Imperial Bank of Commerce	8,000	P-1	73
Credit Suisse AG, New York Branch	1,349	P-1	46
Lloyds Bank	7,501	P-1	2
Nordea Bank AB	4,049	P-1	24
Societe Generale	5,000	P-1	44
Investment Contracts			
FSA Capital Management GIC	2,682	N/A	N/A
	$ 346,193		

The following (expressed in thousands) represents the fair value of investments by type held at June 30, 2018:

		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments at Fair Value			
Debt Securities			
U.S. Government Agencies	$ 157,842	$ —	$ 157,842
Commercial Paper	46,855	—	46,855
Negotiable Certificates of Deposit	48,896	—	48,896
Total investments by fair value level	$ 253,593	$ —	$ 253,593
Investments Measured at Net Asset Value (NAV)			
Money Market Mutual Funds	89,918		
Investments not Subject to Leveling Requirements			
Guaranteed Investment Contract	2,682		
Total Funds on Deposit with Fiscal Agent	$ 346,193		

Money market mutual funds are used as temporary cash management investments. The fair value of these money market funds reflects the net asset value reported by the fund administrator which is a stable $1 per unit. The underlying investments, which are short-term cash equivalent type investments are generally carried at amortized cost which approximates fair value. There are no participant withdrawal limitations.

Funds on deposit with fiscal agent also include approximately $405 million held by the Federal Unemployment Insurance Trust Fund within the Business-Type Activities-Employment Security Fund.

B. Concentration of Credit Risk

The State Investment Commission has adopted limitations as to the maximum percentages of the State's total short-term investment portfolio that may be invested in a specific investment type or with any one issuer of securities.

The combined portfolio concentrations for cash equivalents, investments and funds in trust by issuer (expressed in thousands) that are greater than 5% are as follows:

Type	Issuer	Amount	Percentage
U.S. Government Agencies	Federal National Mortgage Association	$ 72,498	9.55%
U.S. Government Agencies	Federal Home Loan Bank	$ 39,218	5.16%
U.S. Government Agencies	Federal Home Loan Mortgage Corporation	$ 46,125	6.07%
Money Market Funds	Dreyfus Government Cash Management Fund	$ 51,542	6.79%
Money Market Funds	GS Financial Square Treasury Instruments Fund	$ 52,027	6.85%

C. Pension Trusts

Summary of Significant Accounting Policies

Investments - Investment transactions are recorded on a trade date basis. Gains or losses on foreign currency exchange contracts are included in income consistent with changes in the underlying exchange rates. Dividend income is recorded on the ex-dividend date.

Method Used to Value Investments - Investments are recorded in the financial statements at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Short-term investments are generally carried at cost or amortized cost, which approximates fair value.

The fair value of fixed income securities and domestic and international equity securities is generally based on published market prices and quotations from national security exchanges and securities pricing services.

Commingled funds include institutional domestic equity index and international equity index funds. The fair value of these commingled funds is based on the reported net asset value (NAV) based upon the fair value of the underlying securities or assets held in the fund.

Derivative investments (e.g., futures contracts and credit default swaps) are valued at the settlement price established each day by the board of trade or exchange on which they are traded.

The System also trades in foreign exchange contracts to manage exposure to foreign currency risks. Such contracts are used to purchase and sell foreign currency at a guaranteed future price. The change in the estimated fair value of these contracts, which reflects current foreign exchange rates, is included in the determination of the fair value of the System's investments.

Other investments that are not traded on a national security exchange (primarily private equity, real estate, hedge funds, infrastructure investments, and Crisis Protection Class - Trend Following) are valued based on the reported Net Asset Value (NAV) by the fund manager or general partner. Publicly traded investments held by the partnerships are valued based on quoted market prices. If not publicly traded, the fair value is determined by the general partner following U.S. generally accepted accounting principles. Financial Accounting Standards Board ASC Topic 820, *Fair Value Measurements and Disclosures,* requires the limited partnership general partners for these investment types to value non-publicly traded assets at current fair value, taking into consideration the financial performance of the issuer, cash flow analysis, recent sales prices, market comparable transactions, a new round of financing, a change in economic conditions, and other pertinent information.

Hedge funds, private equity, real estate, infrastructure and crisis protection class - trend following investments represented 6.5%, 8.0%, 7.1%, 1.8%, and 3.6% respectively of the total reported fair value of all pooled pension trust investments at June 30, 2018.

Investment expenses - Investment expenses include investment consultant fees, custodial fees, direct investment expenses paid to managers, and certain indirect expenses allocated by managers to fund or partnership investors. Certain Office of the General Treasurer expenses associated with oversight of the pooled investment trust are also allocated and included as investment expenses. When indirect investment expenses for certain types of investments (e.g., hedge funds, private equity, real estate, infrastructure, and crisis protection class), are not reported separately to System management and the investment custodian, additional information is obtained to allow reporting of the System's share of such indirect investment expenses on a gross fee basis.

The System changed its method of reporting investment expenses in fiscal 2018 from reporting certain investment income and related expenses on a net of fees basis to reporting all material investment expenses on a gross fee basis to enhance transparency of all investment related expenses. The change had no effect on net position of the defined benefit plans participating in the pooled investment trust.

Net investment income within the defined contribution plan is reported on a net-of-fees basis.

At June 30, 2018, the carrying amount of pension trust cash deposits was approximately $4.6 million and the bank balance was approximately $4.7 million. The bank and book balances represent the plans' deposits in short-term trust accounts, which include demand deposit accounts and interest-bearing, collateralized bank deposit accounts. The bank balances, include interest-bearing collateralized bank deposits and are either federally insured or collateralized (102%) with U.S. Treasury, agencies, and federal home loan bank letters of credit held by a third party custodian.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the System's deposits were required to be collateralized at June 30, 2018 (excluding the collateralized interest-bearing deposits). However, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the deposit amounts that are not insured by federal depository insurance. Unless FHLB letters of credit are used as collateral, in which case those are required at 100%.

Investments

(a). General

The custodian bank holds assets of the Employees' Retirement System (System) in a Pooled Investment Trust and each plan holds units in the trust. The number of units held by each plan is a function of each plans' respective contributions to, or withdrawals from, the trust.

Investment policy - The State Investment Commission (SIC) oversees all investments made by the State of Rhode Island, including those made for the System's Pooled Investment Trust. The establishment of the SIC, its legal authority and investment powers are outlined in Chapter 35-10 of the Rhode Island General Laws.

The SIC has adopted a Defined Benefit Investment Policy Statement which includes specific asset allocation targets and asset class policies. The most recent policy statement was adopted by the SIC on June 27, 2018 and may be amended by a majority vote of SIC members. The SIC's asset allocation policy seeks to achieve the assumed rate of return adopted by the System over the long-term while reducing risk through the prudent diversification of the portfolio across various asset classes.

The following was the SIC's adopted asset allocation policy targets as of June 30, 2018:

Asset Class	Target Asset Allocation
GROWTH	
Global Equity	**40.0%**
Private Growth	**15.0%**
INCOME	**8.0%**
STABILITY	
Crisis Protection Class	**8.0%**
Inflation Protection	**8.0%**
Volatility Protection	**21.0%**
Total	**100.0%**

Consistent with a target asset allocation model adopted by the State Investment Commission (SIC), the System directs its separate-account investment managers to maintain, within the mandate specified by the SIC, diversified portfolios by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

Specific manager performance objectives are outlined and generally stated in relation to a benchmark or relevant index. These guidelines also include prohibited investments, limitations on maximum exposure to a single industry or single issuer, a minimum number of holdings within the manager's portfolio and, for fixed income managers, minimum credit quality ratings and duration/maturity targets.

Investment expense is allocated to each plan based on the plan's units in the Pooled Investment Trust at the end of each month.

The following table presents the fair value of investments by type that are held within the Pooled Investment Trust for the defined benefit plans at June 30, 2018:

Investment Type	Fair Value (in thousands)
Cash and Cash Equivalents:	
US Cash	$ 4,559
Commercial Paper	39,954
Repurchase Agreements	21,300
Non-US Cash	6,830
Money Market Mutual Funds	109,460
US Government Securities	897,273
US Government Agency Securities	274,246
Non-US Government Securities	4,162
Collateralized Mortgage Obligations	11,311
Corporate Bonds	496,935
Term Loans	286,239
Commingled Funds - Domestic Equity	1,307,512
Commingled Funds - International Equity	1,300,806
Domestic Equity Securities	707,265
International Equity Securities	498,526
Private Equity	664,803
Real Estate	593,001
Hedge Funds	540,854
Crisis Protection Class - Trend Following - Limited partnerships	302,006
Infrastructure	304,028
Derivatives:	
Futures	458
Credit Default Swaps	231
Investments at Fair Value	**$ 8,371,759**
Investment receivable	885,055
Investment payable	(926,356)
Total Pooled Investment Trust	**$ 8,330,458**

Repurchase agreements included as cash equivalent investments are collateralized with U.S. Government Securities equal to or exceeding 102% of the agreement amount. Such collateral is held by a third-party agent.

(b) **Fair value hierarchy**

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 inputs are other than quoted prices included within Level 1-that are observable for an asset or liability, either directly or indirectly.

Level 3 includes unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

Investments and Derivative Instruments Measured at Fair Value

Investments at Fair Value	Fair Value June 30, 2018	Quoted Prices in Active Market for Identical Assets (level 1)	Significant Other Observable Inputs (level 2)	Significant Unobservable Inputs (level 3)
Equity Investments				
Global Equity	$ 1,205,791	$ 1,205,791	$ —	$ —
Infrastructure-publicly traded	154,003	154,003	—	—
	$ 1,359,794	$ 1,359,794	$ —	$ —
Fixed Income				
US Government Securities	$ 897,273	$ 897,273	$ —	$ —
US Government Agency Securities	274,246	—	274,246	—
Non - US Government Securities	4,162	—	—	4,162
Corporate Bonds	496,935	—	496,935	—
Collateralized Mortgage Obligations	11,311	—	11,311	—
Term loans	286,239	—	—	286,239
	$ 1,970,166	$ 897,273	$ 782,492	$ 290,401
Derivative Investments				
Equity and Fixed Income Index Futures	$ 458	$ 458	$ —	$ —
Other Derivatives	231	—	231	—
	$ 689	$ 458	$ 231	$ —
Repurchase Agreements	$ 21,300	$ —	$ 21,300	$ —
Commercial Paper	$ 39,954	$ —	$ 39,954	$ —
Total Investment at Fair Value Level	$ 3,391,903	$ 2,257,525	$ 843,977	$ 290,401
Investments Measured at Net Asset Value (NAV)				
Money Market Mutual Funds	$ 109,460			
Commingled Funds - Domestic Equity	1,307,512			
Commingled Funds - International Equity	1,300,806			
Hedge Funds	540,854			
Private Equity	664,803			
Real Estate	593,001			
Private Infrastructure	150,025			
Crisis Protection Class - Trend Following	302,006			
	$ 4,968,467			
Cash and Cash Equivalents				
US Cash	$ 4,559			
Non US Cash	6,830			
	$ 11,389			
Net Investment Payable	(41,301)			
Total Pooled Investment Trust	$ 8,330,458			

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Term loans classified in Level 3 are valued using consensus pricing.

Derivative instruments classified in Level 2 of the fair value hierarchy are valued using a market approach that considers benchmark interest rates and foreign exchange rates.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table.

	Fair Value	Unfunded Commitments	Redemption (if currently eligible)	Redemption Notice Period
Money Market Mutual Funds(1)	$ 109,460	—	daily	none
Commingled Funds - Domestic Equity (2)	1,307,512	—	daily	none
Commingled Funds - International Equity (2)	1,300,806	—	bi-monthly	see note below
Hedge Funds (3)	540,854	—	see note below	see note below
Private Equity (4)	664,803	552,784	see note below	see note below
Real Estate (5)	593,001	63,506	see note below	see note below
Infrastructure Investments (6)	150,025	98,109	see note below	see note below
Crisis Protection Class - Trend Following (7)	302,006	—	see note below	see note below
	$ 4,968,467	$ 714,399		

(1) ***Money market mutual funds*** - these investments are used as temporary cash management investments for amounts pending investment or for amounts liquidated from investments pending distribution for pension benefits. The fair value of these money market funds reflects the net asset value reported by the fund administrator which is a stable $1 per unit. The underlying investments which are short-term cash equivalent type investments are generally carried at amortized cost which approximates fair value. There are no withdrawal limitations for the money market mutual funds.

(2) ***Commingled funds*** - consist of one domestic and three international equity index funds which are intended to replicate the performance of a specific index; e.g., Russell 3000. The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the commingled fund manager which reflects the exchange pricing of the equity holdings within each fund. The international equity commingled funds may only be redeemed at scheduled intervals twice per month. There are no withdrawal limitations for the domestic equity index fund.

(3) ***Hedge funds*** - this portfolio is comprised of 9 (7 active and 2 in liquidation) limited partnerships divided into two sub-categories: global equity and absolute return. Global equity funds are designed to benefit from the stock market with considerably less risk. They own stakes in companies they expect to outperform and also sell short stocks that they expect to underperform. Absolute return hedge funds employ strategies that seek to generate long-term returns and mitigate risk, regardless of broader market moves. The funds invest across asset classes, including government bonds, other fixed income securities, equity indexes, commodities, and currencies.

The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the general partner at June 30, 2018. Of the underlying holdings within the hedge funds approximately 69% were valued based on Tier 1 inputs (unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted investments).

The system's investments in hedge funds are generally subject to "lock-up" provisions that limit (subject to certain exceptions) the ability to withdraw amounts previously invested for a period of one to three years after the initial investment. At June 30, 2018, investments totaling approximately $1.5 million are subject to these withdrawal limitation provisions. The remainder of hedge fund assets is available for redemption on a month-end, quarter-end, semi-annual or annual basis, and is subject to notice periods which vary by fund and range from 2 days to 75 days.

As part of an overall change in asset allocation during fiscal 2017, the State Investment Commission opted to reduce its investment in hedge funds. Approximately, $236 million was received during fiscal 2018 from the System's liquidation of certain hedge funds. At June 30, 2018, approximately $1.5 million is pending and expected to be received during fiscal 2019. Cash will be distributed as investments are sold.

(4) ***Private equity*** - these 86 limited partnership funds provide the portfolio exposure to private companies through equity and/or debt investments. Private equity fund managers invest in private companies with the goal of enhancing their value over the long-term.

The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the general partner at June 30, 2018.

Private equity - the investments cannot be redeemed. The nature of these investments provides for distributions through the liquidation of the underlying assets or net operating cash flows.

(5) ***Real Estate -*** these 16 limited partnerships investments are comprised of two different private real estate equity components, Core and Non-Core, which generally refer to the relative levels of risk in the underlying assets. Core investments include existing, substantially leased, income-producing properties located principally in economically diversified metropolitan areas. Non-Core investments represent those properties and/or investment strategies that require specialized acquisition and management expertise and skill to mitigate the business and leasing risks that may be associated with individual investments. Non-Core investments, which may be referred to as Value Added and Opportunistic investments, are expected to be held for shorter periods, have greater volatility compared to Core investments, and as such, are expected to provide yields higher than those associated with Core investments.

These funds acquire, manage and sell physical properties, including office, retail, apartment, and industrial buildings as well as more niche property types, such as student housing, self-storage and hotels. The primary goals of this asset class are to provide current income, risk-adjusted total returns, and diversification.

The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the general partner at June 30, 2018.

With the exception of five core open-end funds which allow for quarterly redemptions, the investments cannot be redeemed. The nature of these investments provides for distributions through the liquidation of the underlying assets or net operating cash flows.

(6) ***Infrastructure*** - These four funds provide inflation-protection and current income to the portfolio through investments in facilities and services required for an economy to function including electricity production and distribution, pipelines, sewers and waste management, airports, roads, bridges, ports, railroads, telephone and cable networks, and hospitals. The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the general partner at June 30, 2018.

With the exception of one open-end core fund which allows for quarterly liquidity, the investments cannot be redeemed. The nature of these investments provides for distributions through the liquidation of the underlying assets or net operating cash flows.

(7) ***Crisis Protection Class - Trend Following -*** These three funds were created as limited liability companies with the Employees' Retirement System of the State of Rhode Island as the sole member. The investment managers' principal investment objectives for the companies include:

- providing diversified exposure to market trends across asset classes, geographies and time horizons to generate sizable profits during the periods when growth-risk exposed assets decline significantly;
- generating significant medium-term capital growth independent of overall movements in traditional stock and bond markets within a rigorous risk management framework; and
- outperforming the Credit Suisse Liquid Alternative Beta Managed Futures Index (CLABT18 Index) over a 5-year period.

The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the general partner at June 30, 2018. As the Employees' Retirement System of the State of Rhode Island is the sole member, the limited liability company could be liquidated at its option. The nature of these investments provides for distributions through the liquidation of the underlying assets or net operating cash flows.

(c) **Rate of Return**

For the year ended June 30, 2018, the annual money-weighted returns on investments within each of the plans, net of investment expense, are shown in the following table. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

	ERS	TSB	MERS	SPRBT	JRBT	RIJRFT	SPRFT
Money-weighted rate of return - year ended June 30, 2018	7.85%	7.85%	7.87%	7.83%	7.76%	6.45%	6.91%

(d) **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt security's sensitivity to fair value changes arising from changes in the level of interest rates. It is the weighted average maturity of a bond's cash flows.

The State Investment Commission has adopted a Defined Benefit Investment Policy Statement which includes specific asset allocation targets and asset class policies. While the policy statement includes guidelines governing interest rate risk for certain asset classes, fixed income managers are given specific guidelines regarding duration and investment maturity based on their specific investment objective. These guidelines reflect the manager's strategy and the System's overall asset allocation targets and related objectives.

The System manages its exposure to interest rate risk by comparing each fixed income manager portfolio's effective duration against a predetermined benchmark index based on that manager's mandate. The fixed income indices currently used by the System are:

- Barclays US Aggregate Index
- Barclays US Treasury Inflation Notes - 1-10 Year Index
- Liquid Credit Custom BM: 50% BofA US High Yield Index + 50% Credit Suisse Leveraged Loan Index
- Long Duration BM: Barclays Long Duration US Treasury Index

At June 30, 2018, no fixed income manager was outside of their policy guidelines.

The following table shows the System's fixed income investments by type, fair value and the effective duration at June 30, 2018:

Investment Type	Fair Value (in thousands)	Effective Duration
US Government Securities	$ 897,273	8.91
US Government Agency Securities	274,246	5.06
Non-US Government Securities	4,162	0.11
Collateralized Mortgage Obligations	11,311	1.54
Corporate Bonds	496,935	4.35
Term Loans	286,239	0.25
Total Fixed Income	$ 1,970,166	**5.65**

The System had investments at June 30, 2018 totaling $109 million in money market mutual funds including $251 thousand in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer.

OSIP has met the criteria outlined in GASB Statement No. 79 - *Certain External Investment Pools and Pool Participants* to permit election to report its investments at amortized cost which approximates fair value. OSIP transacts with its participants at a stable net asset value (NAV) per share. Investments reported at the NAV are not subject to the leveling categorization as described above. There are no participant withdrawal limitations. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue - 2nd Floor, Warwick, RI 02886.

The System's remaining money market mutual fund investments consisted of a short-term money market mutual fund that is not rated and held investments with a weighted average maturity of 73 days at June 30, 2018. The fund, by policy, holds only high-grade, highly liquid cash equivalent-type investments.

The System's investment in commercial paper totaling $39,954,074 at June 30, 2018 had maturities ranging from 6 to 202 days.

The System invests in various mortgage-backed securities, such as collateralized mortgage obligations (CMO), interest-only and principal-only strips. They are reported in U.S. Government Agency Securities and Collateralized Mortgage Obligations in the table above. CMO's are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or tranches in accordance with the CMO's established payment order. Some CMO tranches have more stable cash flows relative to changes in interest rates while others are significantly sensitive to interest rate fluctuations.

The System may invest in interest-only and principal-only strips in part to hedge against a rise in interest rates. Interest-only strips are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to pre-payments by mortgagees, which may result from a decline in interest rates. Principal-only strips receive principal cash flows from the underlying mortgages. In periods of rising interest rates, homeowners tend to make fewer mortgage prepayments.

(e) Credit Risk

The State Investment Commission has adopted a Defined Benefit Investment Policy Statement which includes specific asset allocation targets and asset class policies. While the policy statement includes guidelines governing credit risk for certain asset classes, fixed income managers are given specific guidelines regarding credit quality based on their specific investment objective. These guidelines reflect the manager's strategy and the System's overall asset allocation targets and related objectives.

The System manages exposure to credit risk generally by instructing fixed income managers to adhere to an overall target weighted average credit quality for their portfolios and by establishing limits on the percentage of the portfolios that are invested in non-investment grade securities. The System's exposure to credit risk as of June 30, 2018 is as follows:

Rating	Collateralized Mortgage Obligations	US Government Agency Obligations	Corporate Bonds	Non-US Government Obligations	Term Loans
Aaa	$ 10,021	$ 271,692	$ 16,200	—	$ 20,779
Aa	—	—	38,668	—	4,785
A	—	—	127,271	—	5,308
Baa	—	2,554	227,934	—	11,206
Ba	—	—	46,262	—	92,509
B	—	—	25,190	—	109,846
Caa	—	—	7,248	—	5,918
Ca	—	—	—	—	—
C	—	—	—	—	—
D	—	—	—	—	—
Not Rated	1,290	—	8,162	4,162	35,888
Fair Value	$ 11,311	$ 274,246	$ 496,935	$ 4,162	$ 286,239

Investments in commercial paper totaling $39,954,074 at June 30, 2018 were all rated P1.

Ratings provided by Moody's Investors Service

(f) **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. There is no single issuer exposure within the System's pooled investment trust that comprises 5% of the overall portfolio.

(g) **Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2018, all securities were registered in the name of the System (or in the nominee name of its custodial agent) and were held in the possession of the System's custodial bank, Bank of New York Mellon.

(h) **Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Portfolios are diversified to limit foreign currency and security risk. The System may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments.

The System's exposure to foreign currency risk at June 30, 2018, was as follows:

Currency	Comingled Funds	Equities	Private Equity	Foreign Cash	Derivatives	Term Loans	Corporate Bonds	Total
Australian Dollar	$ 54,022	$ 30,103	$ —	$ 457	$ (3)	$ —	$ —	$ 84,579
Brazilian Real	25,120	—	—	—	—	—	—	25,120
Canadian Dollar	94,979	47,740	3,474	307	(4)	—	—	146,496
Chilean Peso	4,544	—	—	—	—	—	—	4,544
Chinese Yuan	185	—	—	—	—	—	—	185
Colombian Peso	2,181	—	—	—	—	—	—	2,181
Czech Republic Koruna	786	—	—	—	—	—	—	786
Danish Krone	11,945	3,935	—	85	—	—	—	15,965
Egyptian Pound	541	—	—	—	—	—	—	541
Euro Currency	251,053	130,558	44,453	2,777	33	748	220	429,842
Great Britain Pound	139,320	84,976	—	1,014	5	—	—	225,315
Hong Kong Dollar	125,135	11,671	—	361	—	—	—	137,167
Hungarian Forint	1,207	—	—	—	—	—	—	1,207
Indian Rupee	37,482	—	—	—	—	—	—	37,482
Indonesia Rupiah	8,141	—	—	—	—	—	—	8,141
Israeli Shekel	2,076	—	—	50	—	—	—	2,126
Japanese Yen	186,561	116,475	—	1,022	32	—	—	304,090
Malaysian Ringgit	10,178	—	—	—	—	—	—	10,178
Mexican Peso	12,567	—	—	—	—	—	—	12,567
New Taiwan Dollar	49,839	—	—	—	—	—	—	49,839
New Zealand Dollar	1,647	1,410	—	57	—	—	—	3,114
Norwegian Krone	5,700	11,131	—	151	—	—	—	16,982
Pakistani Rupee	290	—	—	—	—	—	—	290
Peruvian Nouveau Sol	—	—	—	—	—	—	—	—
Philippine Peso	3,968	—	—	—	—	—	—	3,968
Polish Zloty	4,712	—	—	—	—	—	—	4,712
Qatari Real	3,476	—	—	—	—	—	—	3,476
Russian Ruble	10,248	—	—	—	—	—	—	10,248
Singapore Dollar	10,550	11,704	—	232	—	—	—	22,486
Swedish Krona	19,765	13,080	—	212	—	—	—	33,057
Swiss Franc	57,945	35,743	—	105	—	—	—	93,793
South African Rand	29,352	—	—	—	—	—	—	29,352
South Korean Won	62,890	—	—	—	—	—	—	62,890
Thailand Baht	9,272	—	—	—	—	—	—	9,272
Turkish Lira	2,943	—	—	—	—	—	—	2,943
United Arab Emirates Dirham	2,420	—	—	—	—	—	—	2,420
Total	$ 1,243,040	$ 498,526	$ 47,927	$ 6,830	$ 63	$ 748	$ 220	$ 1,797,354
United States Dollar	57,766							
Grand Total	$ 1,300,806							

In addition to the foreign currency exposure highlighted in the foregoing table, certain hedge fund investments may have foreign currency exposure.

(i) Derivatives and Other Similar Investments

Certain of the System's investment managers are allowed to invest in derivative type transactions consistent with the terms and limitations governing their investment objective and related contract specifications. Derivatives and other similar investments are financial contracts whose value depends on one or more underlying assets, reference rates, or financial indices.

The System's derivative investments include forward foreign currency transactions, futures contracts, options, rights, and warrants. The System enters into these transactions to enhance performance, rebalance the portfolio consistent with overall asset allocation targets, gain or reduce exposure to a specific market, or mitigate specific risks.

Forward foreign currency contracts - The System enters into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. A currency forward is a contractual agreement to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. If not offset by a corresponding position with the opposite currency exposure, these contracts involve risk in excess of the amount reflected in the System's Statements of Fiduciary Net Position. The face or contract amount in U.S. dollars reflects the total exposure the System has in currency contracts. The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

Futures contracts - The System uses futures to manage its exposure to the domestic and international equity, money market, and bond markets and the fluctuations in interest rates and currency values. Futures are also used to obtain target market exposures in a cost-effective manner and to narrow the gap between the System's actual cash exposures and the target policy exposures. Using futures contracts in this fashion is designed to reduce (or hedge) the risk of the actual plan portfolio deviating from the policy portfolio more efficiently than by using cash securities. The program is only used to manage intended exposures and asset allocation rebalancing.

Buying futures tends to increase the System's exposure to the underlying instrument. Selling futures tends to decrease the System's exposure to the underlying instrument or hedge other System investments. Losses may arise due to movements in the underlying or reference markets.

Credit Default Swaps - A credit manager may use credit default swaps in the portfolio to either obtain exposure to the high yield market efficiently (i.e. by selling protection) at a similar or better price than what can be obtained in cash bonds, or to hedge the credit risk of the portfolio (i.e. buying protection).

Through commingled funds, the System also indirectly holds derivative type instruments, primarily equity index futures.

The System invests in mortgage-backed securities, which are included in the categories described as collateralized mortgage obligations and U.S. Government Agency Securities. These securities are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which are likely in declining interest rate environments, thereby reducing the value of these securities.

Additional information regarding interest rate risks for these investments is included in Note 5(d) *Interest Rate Risk*.

The System may sell a security in anticipation of a decline in the fair value of that security or to lessen the portfolio allocation of an asset class. Short sales may increase the risk of loss to the System when the price of a security underlying the short sale increases and the System is obligated to deliver the security in order to cover the position.

The following summarizes the System's exposure to specific derivative investments at June 30, 2018.

Investment Derivative Instruments	**Change in fair value included in investment income**	**Fair Value at June 30, 2018**	**Notional Amount**
Fixed income futures - long	$ 666	$ 561	$ 48,046
Fixed income futures -short	(78)	(78)	(11,362)
Equity index futures - long	(211)	(365)	13,209
Equity index futures - short	128	340	(14,776)
Credit default swaps	(460)	231	
Total	$ 45	$ 689	
Foreign currency forward contracts:			
Pending payable (liability)		$ 139	
Pending receivable (asset)		(54)	
		$ 85	

The System is exposed to counterparty risk on foreign currency contracts that are in asset positions. The aggregate fair value of derivative instruments in asset positions at June 30, 2018 was $85,468. This represents the maximum loss that would be recognized if all counterparties failed to perform as contracted. Risk is mitigated by using a continuous linked settlement process.

The System executes (through its investment managers) derivative instruments with various counterparties. The credit ratings of these counterparties were Baa2 (Moody's) or better, one counterparty was not rated by Moody's but is rated A+ by Standard and Poor's.

Other Investments - Defined Contribution Plan

The State Investment Commission selected various investment options for defined contribution plan participants with the overall objective of offering low-cost, strategic, and long-term oriented investment products. Plan participants can choose one or more of the various options and can change options at any time. Plan participants who do not elect a specific option default to a target date retirement fund consistent with their anticipated Social Security retirement eligibility date.

Investment Type		Fair Value	% of Total	Duration (years)
Annuities				
TIA A Stable Value	$	10,996,695	1.28%	
TIA A Real Estate - variable annuity		—	0.00%	
Total	$	10,996,695	1.28%	
Fixed Income Funds				
Pimco Real Return Institutional Class	$	5,495,982	0.64%	7.07
Vanguard Total Bond Market Index Admiral		5,906,180	0.69%	6.10
Total	$	11,402,162	1.33%	
Target Retirement Funds				
Vanguard Target Retirement 2015 Trust I	$	40,105,064	4.69%	
Vanguard Target Retirement 2020 Trust I		94,343,182	11.02%	
Vanguard Target Retirement 2025 Trust I		115,103,002	13.45%	
Vanguard Target Retirement 2030 Trust I		123,509,242	14.43%	
Vanguard Target Retirement 2035 Trust I		133,929,914	15.65%	
Vanguard Target Retirement 2040 Trust I		108,074,778	12.63%	
Vanguard Target Retirement 2045 Trust I		81,326,678	9.50%	
Vanguard Target Retirement 2050 Trust I		47,542,338	5.55%	
Vanguard Target Retirement 2055 Trust I		18,336,625	2.14%	
Vanguard Target Retirement 2060 Trust I		2,319,254	0.27%	
Vanguard Target Retirement 2065 Trust I		79,693	0.01%	
Vanguard Target Retirement Income Trust I		11,223,427	1.31%	
Total	$	775,893,197	90.65%	
Equity Mutual Funds				
Vanguard Social Index Inv	$	1,899,129	0.22%	
Schwab International Index Fund		6,280,718	0.73%	
Vanguard Institutional Index Fund		24,827,213	2.90%	
Vanguard Emerging Markets Stock Index Fund Admiral		4,678,051	0.55%	
Vanguard Mid-Cap Index Institutional		9,976,759	1.17%	
Vanguard Small Cap Index Institutional		10,055,943	1.17%	
Total	$	57,717,813	6.74%	
Total	$	856,009,867	100.00%	

The majority (99%) of investments held by participants in the defined contribution plan are target date retirement funds and equity index or fixed income mutual funds. The target retirement date funds provide for diversified portfolios of equities and bonds that become progressively more conservative as the fund's associated target retirement date approaches. Equity index mutual funds replicate the price and yield performance of a particular index.

The target retirement date and equity and fixed income mutual funds are priced daily based on the traded prices of the underlying securities held within the funds. There are no withdrawal limitations for these mutual funds. These funds are classified as Level 1 investments (quoted prices in active markets for identical assets) within the fair value hierarchy. Annuities are reported at contract value, which approximates fair value. Annuities held by participants within the defined contribution plan are classified as Level 3 investments (significant unobservable inputs) within the fair value hierarchy.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2018, all assets and securities were registered in the name of TIAA-CREF as the Defined Contribution Plan's record keeper for the benefit of plan members and were held in the possession of TIAA-CREF's custodian, J.P. Morgan Bank.

The majority of the defined contribution plan investment options are mutual funds that invest in diversified portfolios of securities including equity and fixed-income investments. For investment options that are solely fixed income, weighted-average maturity or duration have been disclosed as a measure of interest rate risk.

Fixed income mutual funds and variable annuity accounts are subject to interest rate, inflation and credit risks. Target-date retirement mutual funds share the risks associated with the types of securities held by each of the underlying funds in which they invest including equity and fixed income funds. Mutual funds may have exposure to foreign currency risk through investment in non-US denominated securities.

D. OPEB Trust Funds

The Rhode Island State Employees' and Electing Teachers OPEB System (OPEB System), which accumulates resources for other postemployment benefit payments to qualified employees, consists of six plans: State employees, Teachers, Judges, State Police, Legislators and Board of Education.

Summary of Significant Accounting Policies

Investments - Investment transactions are recorded on a trade date basis. Dividend income is recorded on the ex-dividend date.

Method Used to Value Investments - Investments are recorded in the financial statements at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of fixed income securities and domestic and international equity securities is generally based on published market prices and quotations from national security exchanges and securities pricing services.

Commingled funds consist of an institutional domestic equity index fund. The fair value of the commingled fund is based on the reported net asset value (NAV) based upon the fair value of the underlying securities or assets held in the fund.

Investment expenses - Investment management expenses are presented separately as a component of net investment income and include investment consultants, custodial fees and direct investment expenses allocated by managers. In some instances, investment related costs are not readily separable from investment income and consequently investment income is recorded net of related expenses.

Cash Deposits and Cash Equivalents

At June 30, 2018, the carrying amount of the OPEB System's cash deposits was approximately $9.3 million and the bank balance was $9.3 million. The bank and book balances represent the OPEB System's deposits in short-term trust accounts, which include fully insured demand deposit accounts and interest-bearing, collateralized bank deposit accounts.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. In addition, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to amounts ranging from 100% - 102% of the uninsured deposit amounts. The percentage of collateral required is determined by the underlying classification of the collateral. At June 30, 2018, the OPEB System's cash deposits were either federally insured or collateralized.

Investments

The State Investment Commission oversees all investments made by the State of Rhode Island, including those made for the OPEB System. The General Treasurer makes certain short-term investments on a daily basis. Rhode Island General Law Section 35-10-11 (b) (3) requires that all investments shall be made in securities as would be acquired by prudent persons of discretion and intelligence who are seeking a reasonable income and the preservation of capital.

The assets of each of the plans are pooled for investment purposes only, and units are assigned to the plans based on their respective share of market value. The custodian bank holds assets of the OPEB System in a Pooled Account and each plan holds units in the account. The number of units held by each plan is a function of each plan's respective contributions to, or withdrawals from, the account. Investment expense is allocated to each plan based on the plan's units in the pooled trust at the end of each month.

Consistent with a target asset allocation model adopted by the State Investment Commission, the OPEB System maintains a diversified portfolio by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds. The SIC's adopted asset allocation policy targets of Domestic Equity and Fixed Income of 65% and 35%, respectively, for fiscal year 2018.

The following table presents the fair value of investments by type that are held within the pooled trust at June 30, 2018 (expressed in thousands):

Investments at Fair Value	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt Securities				
US Government Securities	$ 34,508	$ 34,508	$ —	$ —
US Government Agency Securities	26,719	—	26,719	—
Corporate Bonds	31,258	—	31,258	—
Collateralized Mortgage Obligations	806	—	806	—
Total investments by fair value level	$ 93,291	$ 34,508	$ 58,783	$ —
Investments measured at the net asset value (NAV)				
Commingled Funds	$ 176,553			
Money Market Mutual Funds	12,773			
	$ 189,326			
Net investment payable	(10,862)			
Total Pooled Investment Trust	$ 271,755			

Commingled funds – consist of one domestic equity index fund which is intended to replicate the performance of a specific index; e.g., S&P 500. The fair values of the investments have been determined using the NAV per share of the investments as reported by the commingled fund manager which reflects the exchange pricing of the equity holdings. There are no withdrawal limitations for the domestic equity index fund.

Money market mutual funds are used as temporary cash management investments. The fair value of these money market funds reflects the net asset value reported by the fund administrator which is a stable $1 per unit. The underlying investments, which are short-term cash equivalent type investments are generally carried at amortized cost which approximates fair value. There are no participant withdrawal limitations.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The following table shows the OPEB System's fixed income investments by type, fair value and the effective duration at June 30, 2018 (expressed in thousands):

Investment Type:		Fair Value	Effective Duration
US Government Securities	$	34,508	5.41
US Government Agency Securities		26,719	4.98
Corporate Bonds		31,258	7.42
Collateralized Mortgage Obligations		806	3.46
Total Fixed Income	$	93,291	5.22

The OPEB System's investment in the Fidelity Investments Money Market Government Portfolio, a money market mutual fund, had an average maturity of 26 days at June 30, 2018.

Credit Risk

The OPEB System generally manages exposure to credit risk by adhering to an overall target weighted average credit quality for the portfolio. The OPEB System's exposure to credit risk on corporate bonds as of June 30, 2018 is as follows (expressed in thousands):

Quality Rating (1)		US Government Agency Securities		Corporate Bonds		Collateralized Mortgage Obligations
Aaa	$	26,719	$	1,700	$	806
Aa		—		1,673		—
A		—		9,488		—
Baa		—		16,373		—
Ba		—		1,414		—
Not rated		—		610		—
Fair Value	$	26,719	$	31,258	$	806

(1) Moody's Investors Service

The OPEB System's investment in a short-term money market mutual fund (Fidelity Investments Money Market Government Portfolio) was rated AAAm by Standard & Poor's Investors Service.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the OPEB System's investments in a single issuer. There is no single issuer exposure within the OPEB System's portfolio that comprises more than 5% of the overall portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the OPEB System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2018, all securities were registered in the name of the OPEB

System (or in the nominee name of its custodial agent) and were held in the possession of its custodial bank, Bank of New York Mellon.

Derivatives and Other Similar Investments

Through its commingled fund, the OPEB System indirectly holds derivative type instruments, primarily equity index futures.

E. Private Purpose Trusts

The Tuition Savings Program had investments of approximately $6.0 billion in a number of mutual funds and other investment vehicles as of June 30, 2018. These investments are categorized as Level 1 of the fair value hierarchy, with the exception of investment contracts totaling $1.1 billion which are reported at contract value and therefore not subject to the fair value hierarchy. The Touro Jewish Synagogue Fund had investments of approximately $2.9 million in the Fidelity Balanced Fund as of June 30, 2018. These investments are categorized in Level 1 of the fair value hierarchy.

F. Agency Funds

As of June 30, 2018, all of the bank balances of Agency Funds were either covered by federal depository insurance or collateralized by securities held by an independent third party in the State's name.

Note 3. Receivables

Receivables at June 30, 2018 (expressed in thousands) consist of the following:

Primary Government	Taxes Receivable	Accounts Receivable	Notes and Loans Receivable	Gross Receivables	Less: Allowance for Uncollectibles	Total Receivables, Net	Due from Other Governments and Agencies
Governmental receivables	$ 546,417	$ 478,293	$ 4,541	$ 1,029,251	$ (183,488)	$ 845,763	$ 334,831
Less current portion	539,854	471,004	3,480	1,014,338	(183,123)	831,215	315,422
Noncurrent Portion	$ 6,563	$ 7,289	$ 1,061	$ 14,913	$ (365)	$ 14,548	$ 19,409
Business-type activities	$ 66,010	$ 28,042	$ —	$ 94,052	$ (19,638)	$ 74,414	$ 1,018
Less current portion	66,010	28,042	—	94,052	(19,638)	74,414	1,018
Noncurrent portion	$ —	$ —	$ —	$ —	$ —	$ —	$ —

Note 4. Intra-Entity Receivables and Payables

Intra-entity receivables and payables as of June 30, 2018 are the result of ongoing operations and are expected to be reimbursed within the subsequent fiscal year. They are summarized below (expressed in thousands):

	Interfund Receivable	Interfund Payable	Description
Governmental Funds			
Major Funds			
General	$ —	$ 11,218	Operating expenses
Intermodal Surface Transportation	1,786	—	Transportation funding
Non-Major Funds			
RI Temporary Disability Insurance	—	1,239	Operating expenses
Permanent School	17	—	
Bond Capital	—	524	Project funding
RI Capital Plan	—	4,744	Primarily for transportation State match
Total Non-Major Funds	17	6,507	
Total Governmental Funds	1,803	17,725	
Proprietary Funds			
Enterprise			
RI Lottery	1,367	—	Net income owed to General Fund
Employment Security Trust	—	1,564	Benefit payments
Total Enterprise Funds	1,367	1,564	
Internal Service	16,328	209	Settlement of services rendered
Total primary government	$ 19,498	$ 19,498	

Note 5. Capital Assets

The capital asset activity of the reporting entity for the year ended June 30, 2018 consists of the following (expressed in thousands):

Primary Government

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land	$ 393,291	$ 859	$ (2,296)	$ 391,854
Works of Art	3,449	891	—	4,340
Intangibles	173,393	4,377	—	177,770
Construction in progress	568,594	332,712	(615,896)	285,410
Total capital assets not being depreciated or amortized	1,138,727	338,839	(618,192)	859,374
Capital assets being depreciated or amortized:				
Land improvements	4,665	3,715	—	8,380
Buildings	719,277	152,419	—	871,696
Building Improvements	372,596	60,324	—	432,920
Furniture and equipment	326,981	31,575	(10,140)	348,416
Intangibles**	256,390	85,561	—	341,951
Infrastructure	4,220,721	285,141	—	4,505,862
Total capital assets being depreciated or amortized	5,900,630	618,735	(10,140)	6,509,225
Less accumulated depreciation or amortization for:				
Land improvements	3,623	166	—	3,789
Buildings	293,276	37,746	—	331,022
Building Improvements	202,597	2,566	—	205,163
Furniture and equipment	258,446	24,173	(9,881)	272,738
Intangibles**	26,160	28,512	—	54,672
Infrastructure	2,063,807	139,031	—	2,202,838
Total accumulated depreciation or amortization	2,847,909	232,194	(9,881)	3,070,222
Total capital assets being depreciated or amortized, net	3,052,721	386,541	(259)	3,439,003
Governmental activities capital assets, net	$ 4,191,448	$ 725,380	$ (618,451)	$ 4,298,377

**Including information system development costs.

The current period depreciation or amortization was charged to the governmental functions on the Statement of Activities as follows:

General government	$ 22,303
Human services	35,937
Education	7,242
Public safety	19,921
Natural resources	5,902
Transportation	140,889
Total depreciation or amortization expense - governmental activities	$ 232,194

Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 46,808	$ —	$ —	$ 46,808
Construction in progress	840	4,795	(124)	5,511
Total capital assets not being depreciated	47,648	4,795	(124)	52,319
Capital assets being depreciated:				
Buildings	234,377	—	—	234,377
Machinery and equipment	31,379	2,625	(970)	33,034
Intangibles	175	—	—	175
Total capital assets being depreciated	265,931	2,625	(970)	267,586
Less accumulated depreciation for:				
Buildings	150,193	8,180	—	158,373
Machinery and equipment	25,547	2,394	(958)	26,983
Intangibles	115	25	—	140
Total accumulated depreciation	175,855	10,599	(958)	185,496
Total capital assets being depreciated, net	90,076	(7,974)	(12)	82,090
Business-type activities capital assets, net	$ 137,724	$ (3,179)	$ (136)	$ 134,409

Discretely Presented Component Units	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land	$ 125,977	$ 971	$ (1,473)	$ 125,475
Construction in progress	106,779	138,650	(94,134)	151,295
Other	250	—	—	250
Total capital assets not being depreciated or amortized	233,006	139,621	(95,607)	277,020
Capital assets being depreciated or amortized:				
Buildings	2,333,028	101,149	2,358	2,436,535
Land Improvements *	260,964	15,329	113	276,406
Leasehold Improvements *	90	607	—	697
Machinery and equipment	481,231	15,333	(6,070)	490,494
Infrastructure	277,847	21,006	—	298,853
Total capital assets being depreciated or amortized	3,353,160	153,424	(3,599)	3,502,985
Less accumulated depreciation or amortization for:				
Buildings	945,487	76,700	(5,047)	1,017,140
Land Improvements *	148,767	11,483	—	160,250
Leasehold Improvements *	29	5	—	34
Machinery and equipment	312,406	33,841	(5,470)	340,777
Infrastructure	92,302	11,496	—	103,798
Total accumulated depreciation or amortization	1,498,991	133,525	(10,517)	1,621,999
Total capital assets being depreciated or amortized, net	1,854,169	19,899	6,918	1,880,986
Total capital assets, net	$ 2,087,175	$ 159,520	$ (88,689)	$ 2,158,006

* Beginning balances have been reclassified.

Note 6. Long-Term Liabilities

A. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2018 are presented in the following table:

Long-term Liabilities
(Expressed in Thousands)

	Beginning Balance*	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Governmental Activities						
Bonds Payable						
General Obligation bonds (see section B)	$ 1,091,385	$ 149,375	$ (80,765)	$ 1,159,995	$ 87,420	$ 1,072,575
RICC Grant Anticipation Revenue bonds	476,205	—	—	476,205	33,975	442,230
RICC Rhode Island Motor Fuel Tax Revenue bonds	49,765	35,020	(49,765)	35,020	3,605	31,415
Tobacco Settlement asset-backed bonds	662,538	—	(20,535)	642,003	10,580	631,423
Accreted interest on TSFC bonds	85,766	11,702	—	97,468	—	97,468
RICC Historic Tax Credit bonds	80,225	—	(28,230)	51,995	8,090	43,905
Net unamortized premium/discount	236,135	14,163	(32,164)	218,134	—	218,134
Bonds payable, net	2,682,019	210,260	(211,459)	2,680,820	143,670	2,537,150
Obligation under capital leases (see section E)	207,968	9,408	(32,803)	184,573	26,732	157,841
Net unamortized premium/discount	20,563	566	(4,224)	16,905	—	16,905
Obligation under capital leases, net	228,531	9,974	(37,027)	201,478	26,732	174,746
Net pension liability (see note 14) **	2,263,502	4,199	—	2,267,701	—	2,267,701
Net pension liability-special funding (see note 14)**	1,212,754	144,823	—	1,357,577	—	1,357,577
Net OPEB liability as restated (see note 15 C) **	536,152	—	(24,503)	511,649	—	511,649
Job Creation Guaranty Program obligation (see section H)	15,173	9	—	15,182	—	15,182
Compensated absences (see section J)**	80,401	73,696	(79,516)	74,581	66,624	7,957
Pollution remediation (see section I)	3,391	2,448	(3,714)	2,125	414	1,711
Other (see section M)	24,694	16,954	(14,798)	26,850	1,200	25,650
Total Governmental Long-term Liabilities	$ 7,046,617	$ 462,363	$ (371,017)	$ 7,137,963	$ 238,640	$ 6,899,323
Business-type Activities						
Revenue bonds (see section B)	$ 192,440	$ 113,720	$ (74,565)	$ 231,595	$ 10,785	$ 220,810
Net unamortized premium/discount	3,332	—	(385)	2,947	—	2,947
Revenue bonds, net	195,772	113,720	(74,950)	234,542	10,785	223,757
Net pension liability **	16,260	609	—	16,869	—	16,869
Net OPEB liability **	3,910	(46)	—	3,864	—	3,864
Unearned Revenue	7,686	434	(625)	7,495	4,386	3,109
Compensated absences (see section J)**	572	499	(377)	694	264	430
Total Business-type Long-term Liabilities	$ 224,200	$ 115,216	$ (75,952)	$ 263,464	$ 15,435	$ 248,029
Component Units						
Bonds payable (see section B)	$ 2,749,089	$ 260,677	$ (313,191)	$ 2,696,575	$ 152,360	$ 2,544,215
Net unamortized premium/discount	125,143	14,596	(13,434)	126,305	11,041	115,264
Bonds payable, net	2,874,232	275,273	(326,625)	2,822,880	163,401	2,659,479
Notes payable (see section C)	170,445	360,640	(322,453)	208,632	68,377	140,255
Loans payable (see section D)	5,264	10,065	(4,484)	10,845	1,751	9,094
Obligations under capital leases	6,833	—	(1,885)	4,948	1,606	3,342
Net pension liability**	304,154	7,620	(6,418)	305,356	—	305,356
Net OPEB liability**	185,605	6,151	(2,850)	188,906	—	188,906
Compensated absences (see section J)**	31,747	2,398	(2,219)	31,926	10,399	21,527
Due to primary government (see section L)	54,783	553	(5,788)	49,548	5,710	43,838
Unearned revenue	18,614	36,500	(12,537)	42,577	34,024	8,553
Due to component units	1,550	2,485	(253)	3,782	2,457	1,325
Other Long-term liabilities						
Arbitrage rebate (see section K)	1,995	424	(1,121)	1,298	132	1,166
Pollution remediation (see section I)	22,177	—	(3,774)	18,403	936	17,467
Other liabilities (see section M)	342,092	26,791	(8,036)	360,847	2,425	358,422
Total Component Units Long-term Liabilities	$ 4,019,491	$ 728,900	$ (698,443)	$ 4,049,948	$ 291,218	$ 3,758,730

*Certain beginning balances have been reclassified to conform to the current financial statement presentation.

**The net pension, net OPEB, and compensated absences liabilities of the governmental activities are liquidated principally in the General Fund, the Intermodal Surface Transportation Fund and individual institutions of higher education according to the applicable employing state agency.

B. Bonds Payable

At June 30, 2018, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government				Component Units	
	Governmental Activities		Business Type Activities			
	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 143,670	$ 103,784	$ 10,785	$ 10,667	$ 152,360	$ 100,317
2020	152,775	97,746	14,570	9,864	159,960	95,697
2021	152,410	90,850	16,695	9,229	151,028	89,393
2022	154,655	83,771	17,465	8,453	147,953	83,839
2023	154,465	76,443	16,160	7,627	135,746	78,442
2024 - 2028	668,640	277,169	85,975	27,514	589,042	316,132
2029 - 2033	398,970	140,911	35,070	14,589	518,113	200,493
2034 - 2038	164,855	80,666	23,970	4,974	386,847	115,253
2039 - 2043	61,940	54,679	10,905	1,194	270,220	52,067
2044 - 2048	85,820	38,006	—	—	121,502	21,283
2049 - 2053	227,018	1,423,835 *	—	—	57,733	4,613
2054 - 2058	—	—	—	—	6,069	429
	$ 2,365,218	$ 2,467,860	$ 231,595	$ 94,111	$ 2,696,573	$ 1,157,958

* Accreted interest on capital appreciation bonds of the Tobacco Settlement Financing Corporation.

Primary Government - *Governmental Activities*

General obligation bonds of the State are serial bonds with interest payable semi-annually.

In March 2018 the State issued $149.4 million of general obligation bonds with interest rates of 2.75% - 5.00%, maturing from 2019 through 2038. The premium paid on these bonds was $8.7 million.

At June 30, 2018, general obligation bonds authorized by the voters and unissued amounted to approximately $246.2 million. In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved, unless extended by the General Assembly.

In addition to the debt authorized by the voters for which the full faith and credit is pledged, the General Assembly has authorized the issuance of other debt that is subject to annual appropriation. The following authorizations have been enacted and the State plans to issue the debt over the next several years: (1) Energy Conservation - $11.6 million (2) Providence River Dredging - $ 10.5 million and (3) Eleanor Slater Hospital - $22.0 million.

Historic Tax Credit Bonds - In fiscal years 2009 and 2015 the R.I. Commerce Corporation (RICC), on behalf of the State, issued $150 million and $75 million, respectively, of revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The State is obligated under a Payment Agreement to make payments to the trustee, subject to annual appropriation by the General Assembly. The proceeds of the bonds are being used to provide funds for redemption of Historic Structures Tax Credits. There is remaining authorization to issue up to $131.2 million of Historic Tax Credit Bonds.

RICC Grant Anticipation Bonds and Rhode Island Motor Fuel Tax Revenue Bonds - RICC, on behalf of the State, issues special obligation debt. Grant Anticipation Revenue Vehicle Bonds are payable solely from future federal aid revenues to be received by the State in reimbursement of federally eligible costs of specific transportation construction projects. Rhode Island Motor Fuel Tax Revenue Bonds are payable solely from certain pledged revenues derived from two cents ($.02) per gallon of the thirty-three cents ($.33) per gallon Motor Fuel Tax. The bonds provide the State matching funds for the Grant Anticipation Revenue Vehicle

Bonds. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof.

In November 2017, the Rhode Island Commerce Corporation, on behalf of the RI Department of Transportation, issued $35.0 million of Motor Fuel Tax Revenue Refunding Bonds. The bonds mature in 2019 to 2027 and have an interest rate of 5.00%. The bonds were issued to refund $49.8 million of outstanding Rhode Island Economic Development Motor Fuel Tax Revenue Bonds Series 2003A, 2006A and the 2009A. Those bonds had interest rates ranging from 4%-6% and maturities from 2018-2027. The economic gain as a result of this transaction was approximately $5.3 million. A deferred loss on the refunding of approximately $8.2 million was recorded.

Pledged revenues were sufficient to fund fiscal 2018 debt service payments for Grant Anticipation and Motor Fuel Tax Revenue Bonds. These revenues have been pledged for the term of the Grant Anticipation and Motor Fuel Tax Revenue Bonds through fiscal 2027 and 2031, respectively.

Tobacco Settlement Asset-Back Bonds and Accreted Interest - On June 27, 2002 the Corporation issued $685,390,000 of Tobacco Settlement Asset-Backed Bonds (2002 Series). The bond proceeds were used to purchase the State's future rights in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement and the Consent Decree and Final Judgment (the MSA). The bonds accrued interest at rates ranging from 5.920% to 6.250% and matured in varying amounts through June 1, 2042. The bonds were subject to early redemption provisions, in whole or in part, at the redemption price of 100% of the principal amount plus accrued interest, without premium. The 2002 Series bonds were fully redeemed on March 19, 2015.

On June 27, 2007 the Corporation issued $197,005,742 of additional Tobacco Settlement Asset-Backed Bonds (2007 Series). The bond proceeds were used to purchase the State's future rights to residual Tobacco Settlement Revenues which were not purchased under the 2002 purchase agreement. The bonds are Capital Appreciation Bonds, on which no periodic interest payments are made, but which are issued at a deep discount from par and accreting to full value at maturity in the year 2052. At maturity, the bond redemption values represent accreted yields ranging from 6.000% to 6.750%. The bonds are subject to early redemption provisions, in whole or in part, at the redemption price of 100% of the issue amount plus accreted interest, without premium. A portion of the 2007 Series Bonds were redeemed in March 2015 and June 2017.

On March 19, 2015 the Corporation issued $620,935,000 of Tobacco Settlement Asset-Backed Bonds (Series A and B) that bear interest at annual rates ranging from 0.590% to 5.000% and mature in varying amounts through June 1, 2050. The bonds are subject to a number of early redemption provisions, in whole or in part, at the redemption price of 100% of the principal amount plus accrued interest, without premium. Term Maturities represent the minimum amount of principal that the Corporation has to pay as of specific dates.

The Series 2015 bond indenture contains "Turbo Maturity" provisions, whereby the Corporation is required to apply the funds collected that are in excess of the then current funding requirements of the indenture to the early redemption of certain of the Series 2015 B bonds (based upon a minimum turbo redemption schedule established for the bonds). The amount available for turbo redemptions on the Series 2015 B bonds are credited against the term maturities in ascending chronological order based on a schedule contained in the indenture. Excess turbo funds available, if any, will be used to retire Series 2007 bonds.

The proceeds of the issuance of the Series 2015 bonds, along with the release of debt service funds related to the bonds retired, and the proceeds from the early termination of investment contracts, were used to fully redeem the remaining balance of the 2002 Series bonds, and to repurchase and retire the principal amount of $76,220,155 of the 2007 Series bonds as well as pay accreted interest of $13,600,495 on the retired 2007 Series bonds.

A deferred gain on refunding of debt in the aggregate amount of $31,549,000 on the Series 2002 and Series 2007 bonds, net of $680,000 amortization, is reflected as a deferred inflow of resources in the accompanying Statement of Net Position.

A reserve account in the amount of $26,700,250 was established for the Series 2015A bonds. The Corporation is required to maintain this reserve account to the extent of available funds. Amounts on deposit with the trustee in the reserve account are available to pay (i) the principal of sinking fund installments of, and interest on, the Series 2015A bonds to the extent revenues are insufficient for such purpose and (ii) upon the occurrence of an event of default, extraordinary prepayments. Unless an event of default has occurred, amounts withdrawn from the reserve account will be replenished from revenues.

In addition, a reserve account in the amount of $12,175,975 was established for the Series 2015B bonds. The Corporation is required to maintain this reserve account to the extent of available funds. Amounts on deposit with the trustee in the reserve account are available to pay (i) the principal of sinking fund installments of, and interest on, the Series 2015B bonds to the extent revenues are insufficient for such purpose and (ii) upon the occurrence of an event of default, extraordinary prepayments. Unless an event of default has occurred, amounts withdrawn from the reserve account will be replenished from revenues.

The bonds are payable both as to principal and interest solely out of the assets of the Corporation pledged for such purpose, and neither the faith and credit nor the taxing power of the State of Rhode Island or any political subdivision thereof is pledged to the payment of the principal of or the interest on the bonds. The bonds do not constitute an indebtedness of or a general, legal or “moral” obligation of the State or any political subdivision of the State.

Primary Government - *Business-Type Activities*

R.I. Convention Center Authority

The R.I. Convention Center Authority (RICCA) is limited to the issuance of bonds or notes in an aggregate principal amount of $305 million. At June 30, 2018, outstanding bond indebtedness totaled $231.6 million.

In November 2017, the 2009 Series A Bonds outstanding in the amount of $64.8 million were advance refunded via the Authority's issuance of Revenue Refunding Bonds, 2017 Series A (federally taxable) (2017 Series A Bonds).

Concurrent with the issuance of the 2009 Series A Bonds, a financial guaranty insurance policy was issued by Assured Guaranty Corporation (AGC). The policy provides maximum coverage for principal and interest payments on the 2009 Series A Bonds of approximately $127.5 million. Coverage under the policy terminated with the advance refunding of the 2009 Series A Bonds.

Also, concurrent with the issuance of the 2009 Series A Bonds, a Debt Service Reserve Fund Facility (the Facility) was issued by Assured Guaranty Municipal Corp., formerly Financial Security Assurance, Inc. (FSA) to meet the Debt Service Reserve Fund requirement. The Facility provides maximum coverage of approximately $16.2 million. Coverage under the Facility expires at the earlier of May 15, 2027 or the date upon which the 2013 Series A, 2015 Series A and 2017 Series A are no longer outstanding. In May 2018, AGM was rated by Moody’s as A2. In June 2018, AGM was rated by S&P as AA.

During November 2017, the Authority issued its 2017 Series A Bonds, in an aggregate amount of approximately $68.7 million for the purpose of refunding the Authority’s outstanding 2009 Series A and to pay costs of issuance. The net proceeds of $68.3 million (after payment of $0.4 million) in underwriter’s fees and other issuance costs) were deposited in an irrevocable trust fund under an agreement dated December 20, 2017 between the Escrow Agent and the Authority. The proceeds were used to buy a portfolio of direct obligations of or obligations guaranteed by the United States. All investment income on and the maturing principal of the escrow securities held in the escrow deposit fund will be irrevocably deposited by the Authority for payment of the refunded bonds. The Authority refunded the above bonds to reduce total debt service payments over the next ten years by approximately $6.9 million and to obtain an economic gain of approximately $5.7 million. The refunded bonds are considered defeased. As of June 30 2018, the amount of defeased debt outstanding but removed from the statement of net position is $63.5 million and the escrow balance is $65.4 million.

In March 2018, The Authority issued the Garrahy Parking Garage Lease Revenue Bonds, 2018 Series A (federally taxable) (2018 Series A Bonds), in an aggregate amount of $45.0 million for the purpose of (i) financing the acquisition, construction, equipping and improvement of the parking facility adjacent to the

Garrahy Courthouse, (ii) pay the cost of issuance, and (iii) paying capitalized interest on the 2018 Series A Bonds. The bonds mature between 2019 and 2042.

All outstanding indebtedness is subject to optional and mandatory redemption provisions. Mandatory redemption is required for certain bonds over various years through 2027 at the principal amount of the bonds. Certain bonds may be redeemed early, at the option of RICCA, at amounts ranging from 100% to 102% of the principal balance.

Outstanding indebtedness is collateralized by all rents receivable (if any) under a lease and agreement between RICCA and the State covering all property purchased by RICCA for the site, all other revenues and receipts from the project, a mortgage on constructed facilities, land financed by proceeds of the bonds, and amounts held in various accounts into which bond proceeds were deposited. In addition, outstanding indebtedness is insured under certain financial guaranty insurance policies.

Each of the bond resolutions contains certain restrictive covenants. During the year ended June 30, 2018, RICCA was unable to fund the Operating Reserve requirement of the restrictive covenants for the R.I. Convention Center and the DDC pursuant to the indentures.

RICCA and the R.I. Department of Administration have entered into agreements that provide for total appropriations from the RI Capital Plan (RICAP) for various purposes, including funding the Renewal and Replacement requirement of the restrictive covenant for the DDC. Detailed information regarding these agreements is in RICCA's financial statements for the fiscal year ended June 30, 2018.

RICCA maintains an agreement with AMBAC Indemnity Corporation (AMBAC) under which AMBAC provides RICCA with surety bond coverage to meet Debt Service Reserve Fund requirements for the R.I. Convention Center. The surety bond provides a maximum coverage of $15.2 million. Coverage under the surety bond expires on May 15, 2023. RICCA maintains additional agreements with AMBAC for the R.I. Convention Center under which AMBAC provides RICCA with separate surety bond coverages to meet Debt Service Reserve Fund and Operating Reserve Fund requirements, respectively. The surety bond relating to the Debt Service Reserve Fund requirements replaced mandated investments and provides a maximum coverage of approximately $8.8 million. The surety bond relating to the Operating Reserve Fund requirements also replaced mandated investments and provides a maximum coverage of approximately $3.9 million. Coverage under both surety bonds expires on May 15, 2027. The Debt Service and Operating Reserve Fund Facilities are required to have a credit rating in one of the three highest categories by Moody's and S&P. As of June 30, 2018, AMBAC's credit rating did not meet the aforementioned requirement, however, RICCA acquired from Assured Guaranty Corporation a surety bond that meets the Debt Service Reserve Fund requirement for the R.I. Convention Center.

RICCA is required by the Internal Revenue Service, as well as its various bond resolutions, to comply with certain tax code provisions and bond covenants. The most significant of these include the following: all debt payments must be current, annual reports and budgets must be filed with the trustee, and RICCA must comply with various restrictions on investment earnings from bond proceeds.

Discretely Presented Component Units

University of Rhode Island, Rhode Island College and the Community College of Rhode Island

The University of Rhode Island (URI), Rhode Island College (RIC), and the Community College of Rhode Island (CCRI) have issued a number of series of revenue bonds to finance housing, student union (including bookstores) and dining facilities. Under terms of the trust indentures, certain net revenues from these operations must be transferred to the trustees for payment of interest, retirement of bonds, and maintenance of facilities. The bonds are payable in annual or semi-annual installments to various maturity dates. Revenue bonds also include amounts borrowed under loan and trust agreements between the R.I. Health and Educational Building Corporation (RIHEBC) and the Board of Education acting for URI, RIC, and CCRI. The agreements provide for RIHEBC's issuance of the bonds with a loan of the proceeds to the University and Colleges and the payment by the University and Colleges to RIHEBC of loan payments that are at least equal to debt service on the bonds. The bonds are secured by a pledge of revenues of the respective institutions.

At June 30, 2018 revenue bonds outstanding were approximately as follows: URI - $267.9 million, RIC - $14.7 million, and CCRI - $1.7 million.

R.I. Airport Corporation

Revenue bonds are issued by RICC on behalf of RIAC. The proceeds from these bonds are used to finance construction and related costs of certain capital improvements. These bonds, except for the 2006 First Lien Special Facility Bonds, are secured by the net revenues derived from the operation of the airports. The 2006 First Lien Special Facility Bonds are secured solely by the net revenues derived from the InterLink facility.

Per its Master Indenture of Trust and Supplemental Indentures, RIAC has pledged net revenues derived from the operation by RIAC of the Airport and certain general aviation airports to repay approximately $236.0 million in airport revenue bonds. Proceeds from the bonds were used for various airport improvement projects. Amounts available to pay debt service per the Master Indenture, including pledged passenger facility charges, were approximately $51.0 million for the year ended June 30, 2018. Principal and interest payments for the year ended June 30, 2018 were approximately $24.3 million.

In June 2006, the R.I. Airport Corporation (RIAC), R.I. Commerce Corporation (RICC), and the R.I. Department of Transportation (RIDOT) executed a Secured Loan Agreement (Agreement) which provides for borrowings of up to $42 million with the United States Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA). The purpose of the Agreement was to reimburse RICC and RIDOT and to provide funding to RIAC for a portion of eligible project costs related to the InterLink Facility Project. RIAC was permitted under the Agreement to make requisition of funds for eligible project costs through fiscal year 2013. RIAC began making monthly payments of interest in fiscal year 2012, with interest at a rate of 5.26%. Payments are made on behalf of RICC (the borrower per the Agreement), and debt service payments commenced in fiscal year 2012 with a final maturity in fiscal year 2042. Such repayments are payable solely from the net revenues derived from the InterLink. As of June 30, 2018, RIAC had approximately $41.1 million in borrowings under this agreement.

I-195 Redevelopment District Commission

In April 2013, RICC issued Economic Development Revenue Bonds 2013 Series A, and Economic Development Bonds 2013 Series B (federally taxable) in the aggregate principal amounts of $38.4 million, for which the I-195 RDC is the obligor. The 2013 Series A Bonds mature in April 2033 and bear interest at the lesser of the 30-Day London InterBank Offered Rate (LIBOR) (1.9825% at June 30, 2018) plus applicable margin, or 7.75%. Applicable margin is the rate that corresponds to the lesser of the two long-term bond ratings of the State from Moody's Investors Service (Moody's) and Standard & Poor's (S&P) in the following table:

State Bond Rating (S & P/Moody's):	AA/Aa2 or Higher	AA-/Aa3	A+/A1	A/A2	A-/A3
Applicable Margins, 2013 Series A	1.00%	1.17%	1.37%	1.57%	1.82%

At June 30, 2018, the State's general obligation bonds were rated AA and Aa2 by S&P and Moody's, respectively. As such, at June 30, 2018, the 2013 Series A Bonds bore interest at 2.9825%.

Concurrently with the issuance of the 2013 Series A Bonds, RICC issued Economic Development Bonds, 2013 Series B (federally taxable), in the aggregate principal amount of $960 thousand, for which the I-195 RDC is the obligor. The 2013 Series B Bonds mature in April 2019 and bear interest at the lesser of the 30-Day LIBOR (1.9825% at June 30, 2018) plus the lesser of the two long-term bond ratings of the State from Moody's and S&P in the following table:

State Bond Rating (S & P/Moody's):	AA/Aa2 or Higher	AA-/Aa3	A/A1	A/A2	A-/A3
Applicable Taxable Margins, 2013 Series B	1.15%	1.32%	1.52%	1.72%	1.97%

Based on the State's most recent bond ratings, the 2013 Series B bonds bore interest at 3.1325% at June 30, 2018.

Proceeds from the 2013 Series A and B bonds were transferred by the I-195 RDC to the State.

Simultaneously with the issuance of the 2013 Series A and B Bonds, the I-195 RDC, RICC, and a Bank entered into a bond purchase agreement under the terms of which the 2013 Series A and B Bonds were purchased by the Bank. The Bank holds a mandatory tender option to sell the bonds to RICC on either April 1, 2023 or April 1, 2028.

Concurrent with the issuance of the 2013 Series A and B Bonds, the State entered into separate rate cap transaction agreements with the Bank for each bond series (the 2013 Series A and B Rate Cap Agreements). Under the terms of the 2013 Series A Rate Cap Agreement, the State paid the Bank $658,500. In exchange, the Bank agreed to pay the State interest on a monthly basis at 30-Day LIBOR, to the extent 30-Day LIBOR exceeds the interest rate cap, on the notional amount, which mirrors the scheduled principal balance of the 2013 Series A Bonds, through April 1, 2023. The interest rate under the 2013 Series A Rate Cap Agreement is capped at 6.75%. Under the terms of the 2013 Series B Rate Cap Agreement, the Bank agreed to pay the State interest on a monthly basis at 30-Day LIBOR (1.9825% at June 30, 2018), to the extent 30-Day LIBOR exceeds the interest rate cap, on the notional amount, which mirrors the scheduled principal balance of the 2013 Series B Bonds, through April 1, 2019. The State made no payment to the Bank under the terms of that agreement. The interest rate under the 2013 Series B Rate Cap Agreement is capped at 6.85%. At June 30, 2018, the fair value of the 2013 Series A and B Rate Cap Agreements was $31,244 and is estimated as the amount the Bank would receive to terminate the Rate Cap Agreements at the reporting dates, taking into account current interest rates and the current credit worthiness of the counterparties.

Repayment of the 2013 Series A and B Bonds shall be solely from i) appropriated funds, if any, made available and appropriated by the General Assembly of the State for bond payments, but not for payment of administrative expenses and ii) pledged receipts, which are the net proceeds derived from the sale, lease, transfer, conveyance, or other disposition of any interest in all or any portion of the I-195 land owned by the I-195 RDC.

The I-195 RDC has pledged and granted to RICC a security interest, which has been assigned to the bond trustee, in all pledged receipts and all deposits in the bond, project, expense and credit facility funds established with the bond trustee.

To the extent that the I-195 RDC has insufficient funds to meet its payment obligations under the bonds, it shall seek appropriations from the State; however, there are no assurances that the State will appropriate amounts to fund the I-195 RDC's payment obligations.

Other Component Units

Nonmajor component units have various bonds outstanding. These revenue bonds were generally issued to fulfill the component unit's corporate purpose. Additional information on each nonmajor component unit's debt obligations is available in their audited financial statements.

C. Notes Payable

Discretely Presented Component Units

Notes payable (expressed in thousands) at June 30, 2018 are as follows:

Component Units -		
Rhode Island College note payable to the federal government with interest at 5.5% payable in semi-annual installments of principal and interest through 2024	$	886
R.I. Resource Recovery Corporation note payable to the host municipality with an interest rate of 1.4%, payable in equal in equal installments over the next 12 years		2,643
R.I. Housing and Mortgage Finance Corporation bank notes and lines of credit, 0.00% to 6.25% interest, payable through 2058		205,103
		208,632
Less: current portion		68,377
	$	140,255

D. Loans Payable

Discretely Presented Component Units

This balance consists of loans payable by the University of Rhode Island and the Quonset Development Corporation of approximately $764 thousand and $10.1 million, respectively.

E. Obligations Under Capital Leases

Primary Government

The State has entered into capital lease agreements, primarily Certificates of Participation (COPS), with financial institutions. These financing arrangements have been used by the State to acquire, construct or renovate facilities and acquire other capital assets. The State's obligation under capital leases at June 30, 2018 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds. Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly.

The following is a summary of material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2018:

Fiscal Year Ending June 30	Certificates of Participation	Other Capital Leases	Total
2019	$ 31,723	$ 2,935	$ 34,658
2020	33,232	2,937	36,169
2021	30,982	2,937	33,919
2022	25,501	943	26,444
2023	25,589	812	26,401
2024 - 2028	53,676	314	53,990
2029 - 2033	7,064	—	7,064
Total future minimum lease payments	207,767	10,878	218,645
Amount representing interest	(33,931)	(141)	(34,072)
Present value of future minimum lease payments	$ 173,836	$ 10,737	$ 184,573

Each COPS transaction generally covers multiple capital projects supporting multiple functions of the primary government. In general, the amount of capital asset additions funded through COPS is equivalent to the amount of the issuance. The State reports the amortization charge on assets acquired through COPS with depreciation expense on the government-wide financial statements and discloses the amounts in Note 5, Capital Assets.

In April 2018, the State financed the acquisition of tractors in the amount of approximately $1.3 million under a capital lease agreement with a lender.

When issuances also fund component unit projects, the State records the full lease under the obligation and recognizes the related receivable from the component unit for their portion of debt service in the government-wide financial statements.

Assets purchased with capital leases as of June 30, 2018 (expressed in thousands) are as follows:

Category	Cost	Accumulated Depreciation	Net Book Value
Buildings	$ 215,583	$ 57,905	$ 157,678
Building Improvement	92,361	29,687	62,674
Computer Systems	70,186	11,159	59,027
Infrastructure	26,754	7,759	18,995
Equipment	1,576	79	1,497
	$ 406,460	$ 106,589	$ 299,871

F. Defeased Debt

The State and its component units have defeased certain general obligation bonds and revenue bonds by placing the proceeds of the new bonds or other sources in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the basic financial statements.

At June 30, 2018, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	$ 176,110
R.I. Convention Center Authority	63,455
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	48,915
R.I Infrastructure Bank	123,200
R.I. Airport Corporation	43,340

G. Conduit Debt

The R.I. Health and Educational Building Corporation has issued various series of revenue bonds, notes, and leases to finance capital expenditures for Rhode Island educational institutions, hospitals, and healthcare providers. The bonds, notes and leases are special obligations of the Corporation, payable from revenues derived solely from the institution for which the project was financed. The bonds, notes, and leases do not constitute a debt or pledge of the faith and credit of the corporation or the State, and accordingly are not reflected in the financial statements. The amount of conduit debt outstanding on June 30, 2018 was $3.2 billion.

The R.I. Industrial Facilities Corporation and the R.I. Commerce Corporation issue revenue bonds, equipment acquisition notes, and construction loan notes to finance various capital expenditures for Rhode Island business entities. The bonds and notes issued by the corporations are not general obligations of the corporations and are payable solely from the revenues derived from the related projects. They neither constitute nor give rise to a pecuniary liability for the corporations nor do they represent a charge against their general credit. Under the terms of the various indentures and related loan and lease agreements, the business entities make loan and lease payments directly to the trustees of the related bond and note issues in amounts equal to interest and principal payments due on the respective issues. The payments are not shown as receipts and disbursements of the corporations, nor are the related assets and obligations included in the financial statements. The amount of conduit debt outstanding on June 30, 2018 was $41.1 million and $1.1 billion for these component units. Certain issues of conduit debt are moral obligations of the State, and the current amounts outstanding are disclosed in Note 13.

The Rhode Island Infrastructure Bank (RIIB) has issued conduit bonds for the express purpose of providing capital financing for a specific third party. RIIB has no obligation for the conduit debt beyond resources provided by a loan with the third party on whose behalf the conduit bonds were issued. As of June 30, 2018, RIIB had seven series of conduit bonds outstanding, with an aggregate principal amount payable of approximately $73.7 million.

H. Job Creation Guaranty Program – Moral Obligations

The Job Creation Guaranty Program (JCGP) was established by the General Assembly in 2010 for the purpose of promoting economic development in the State and authorized the issuance of a maximum of $125 million of obligations by the RI Commerce Corporation (RICC), formerly known as the RI Economic Development Corporation.

In November 2010, RICC issued $75 million of taxable revenue bonds under the JCGP. The bond proceeds were loaned to 38 Studios, LLC (38 Studios) and provided funding for the relocation of the company's corporate headquarters to the State and establishment and operation of a video gaming software development studio in Providence. Proceeds also were used to fund a Capital Reserve Fund and Capitalized Interest Fund. Amounts in the Capital Reserve Fund were to be used in the event that 38 Studios failed to make any required loan payments. In accordance with the enabling legislation and the agreement between RICC, the trustee and 38 Studios, should amounts in the Capital Reserve Fund fall below minimum requirements, RICC has agreed to present the Governor with a certificate stating the amounts required to restore any shortfall and the Governor is required to include such amounts in his or her budget request for appropriation by the General Assembly. The General Assembly may, but is not required to, appropriate such amounts.

38 Studios filed for Chapter 7 bankruptcy protection on June 7, 2012. On August 8, 2012, a federal judge allowed assets to be liquidated through the state court in Rhode Island.

The total remaining debt service on the bonds as of June 30, 2018 is approximately $37.0 million. The maturity dates on the bonds range from 2018 to 2020 with maximum annual debt service of approximately $12.7 million.

In November 2012, RICC sued various individuals and entities involved with the loan to 38 Studios including principals of 38 Studios, former employees of RICC and various advisors to RICC alleging fraud, negligence, breach of fiduciary duty and other charges. The suit sought repayment of compensatory and punitive damages associated with the various counts identified in the lawsuit.

Various settlements were reached with the defendants between August 2014 and October 2016 resulting in net recoveries after payments of fees, costs and expenses totaling $36.6 million were paid to the trustee for the benefit of the bondholders.

The General Assembly has appropriated deficiencies in the Capital Reserve Fund in prior fiscal years. Due to amounts received from the settlements described above, amounts available in the Capital Reserve Fund were sufficient to fund required debt service in fiscal 2018.

The State has recorded a liability of $15.2 million relating to its moral obligation to the 38 Studios bondholders under the JCGP at June 30, 2018. This amount represents the current estimate of the amount of probable loss by the State and reflects amounts available resulting from the litigation recoveries discussed above.

The $15.2 million, although recorded as a liability for financial statement purposes, is still subject to annual appropriation by the General Assembly. The estimated liability will be reduced in future years as the related debt is extinguished.

The General Assembly repealed the authority for RICC to guarantee further loans under the JCGP during the 2013 legislative session.

For additional disclosures regarding the Job Creation Guaranty Program, see the separately issued financial statement of the RI Commerce Corporation.

I. Pollution Remediation Liabilities

GASB Statement No. 49 establishes guidance to estimate and report potential costs which may be incurred for pollution remediation liabilities. GASB Statement No. 49 requires the reporting entity to reasonably estimate and report a remediation liability when one of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the reporting entity is compelled to take action.
- The reporting entity is in violation of a pollution related permit or license.
- The reporting entity is named or has evidence it will be named as a responsible party by a regulator.
- The reporting entity is named or has evidence it will be named in a lawsuit to enforce a cleanup.
- The reporting entity commences or legally obligates itself to conduct remediation activities.

The State and certain component units have remediation activities underway, and these are in stages including site investigation, planning and design, clean up and site monitoring. Several agencies within State government have as part of their mission the responsibility to investigate possible pollution sites and oversee the remediation of those sites. These agencies have the expertise to estimate the remediation obligations presented herein based on prior experience in identifying and funding similar remediation activities. The remediation liabilities reported have been calculated using the expected cash flow technique. Situations posing potential liabilities, for which a reasonable estimate could not be made, have not been included.

Additionally, the State may have a pollution remediation obligation for certain sites for which investigations and studies, or related litigation, are still in progress and consequently, associated future costs cannot be estimated.

The remediation obligation estimates presented are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes in laws or regulations, and other factors that could result in revision to the estimates. Recoveries from responsible parties may reduce the State's obligation. As of June 30, 2018, no reasonable estimates of those recoveries can be made. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

J. Compensated Absences

State employees and those of certain component units are granted vacation and sick leave in varying amounts based upon years of service. Additionally, the State has deferred payment of certain compensation to employees. A liability has been calculated for all earned vacation credits, subject to certain limitations, and vested sick leave credits that are payable at retirement, subject to certain limitations. Payment is calculated at the employees' current rate of pay.

K. Arbitrage Rebate

A liability accrues for income on the investment of debt proceeds determined to be arbitrage earnings in accordance with federal regulations. These amounts are generally payable to the federal government five years after the issuance date of the bonds.

L. Due to the Primary Government

This consists of the repayment of general obligation debt that was issued by the State on behalf of certain component units.

M. Other Long-Term Liabilities

Governmental Activities - the liabilities consist primarily of:

- Retainage related to infrastructure construction projects - these amounts are considered long-term liabilities since the related construction projects are not expected to be completed in the subsequent fiscal period.

In addition, certain other long-term payables are included in this category. Historically, long-term liabilities, other than debt, will be paid through certain funds as follows:

- Compensated absences – Assessed Fringe Benefits Fund, an internal service fund and the respective fund to which the underlying employee's wages and benefits are charged.
- Pollution remediation – General, RI Capital Plan, and Intermodal Surface Transportation Funds.
- Other long-term liabilities – General and Intermodal Surface Transportation Funds.

Component Units – the liabilities consist primarily of landfill closure and post-closure costs and grants refundable.

Note 7. Net Position/Fund Balances

Governmental Activities

Restricted Net Position

The Statement of Net Position-Governmental Activities reflects $578.3 million of restricted net position, of which $378.15 million is restricted by enabling legislation, including $131.00 million of RI Capital Plan Funds. The remaining net position that is restricted by enabling legislation is included in the Employment Security Programs and Other categories on the Statement of Net Position. The principal component of the remaining balance of the restricted net position is unexpended bond proceeds.

Governmental Funds – Fund Balances

Governmental fund balance categories are detailed below (expressed in thousands):

Governmental Funds - Fund Balance

	Major Funds			
	General Fund	IST Fund	Other Funds	Total
Fund Balances:				
Nonspendable:				
General Fund	$ 1,626	$ —	$ —	$ 1,626
Permanent Fund Principal	—	—	174	174
Restricted for:				
Purposes specified by enabling legislation	93,318	—	—	93,318
RI Capital Plan	—	—	130,953	130,953
Debt Service	—	15,366	75,313	90,679
Capital Projects	—	—	134,119	134,119
Temporary Disability Insurance	—	—	153,882	153,882
Historic Tax Credit Redemption	—	—	25,801	25,801
Transportation-Infrastructure	—	322,623	—	322,623
Mission 360 Loan Program	—	1,847	—	1,847
Education	—	—	1,665	1,665
Other	—	—	540	540
Committed to:				
Transportation-Maintenance	—	76,391	—	76,391
Other	3,210	—	391	3,601
Assigned to:				
Subsequent Years Expenditures	32,328	—	—	32,328
Statutory Reappropriations	10,057	—	—	10,057
Unassigned:				
Budget Reserve and Cash Stabilization	198,502	—	—	198,502
Other	19,634	(1,130)	—	18,504
Totals	$ 358,675	$ 415,097	$ 522,838	$ 1,296,610

Article IX of the State Constitution requires the maintenance of a State Budget Reserve and Cash Stabilization Account (the Reserve) within the State's General Fund. Section 35-3 of the General Laws specifically establishes the annual minimum balance requirements for the account. For fiscal year 2018, 3.0% of total general revenues and opening surplus are transferred to the Reserve. Amounts in the Reserve in excess of 5.0% of total general revenues and opening surplus are transferred to the RI Capital Plan Fund to be used for capital projects.

According to the State Constitution and related enabling laws the Reserve, or any portion thereof, may be appropriated by a majority of each chamber of the General Assembly, in the event of an emergency involving the health, safety or welfare of the citizens or to fund any unanticipated general revenue deficit caused by a general revenue shortfall in any given year.

The State has not adopted any minimum fund balance requirements for any funds beyond the State Budget Reserve and Cash Stabilization Account within the General Fund.

See Note 1, Section S of these Notes for more information regarding the five categories of fund balance.

Note 8. Taxes

Tax revenue reported on the Statement of Activities is reported net of the allowance for uncollectible amounts and net of estimated refunds. Tax revenue on the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds is reported net of estimated refunds, uncollectible amounts and the amount that will not be collected within one year (unavailable). The unavailable amount is reported as deferred inflows of resources. The detail of the general revenue taxes as stated on the Statement of Activities and the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances is presented below (expressed in thousands):

	Governmental Funds	Statement of Activities
General Fund		
Personal Income	$ 1,339,798	$ 1,342,256
General Business Taxes:		
Business Corporations	127,170	127,145
Public Utilities Gross Earnings	109,594	109,680
Financial Institutions	29,176	29,336
Insurance Companies	115,101	114,943
Bank Deposits	1,642	1,553
Health Care Provider Assessment	44,100	44,104
Sub-total - General Business Taxes	426,783	426,761
Sales and Use Taxes:		
Sales and Use	1,057,177	1,057,197
Motor Vehicle	20,822	20,832
Cigarettes	146,879	146,958
Alcoholic Beverages	19,928	19,928
Sub-total - Sales and Use Taxes	1,244,806	1,244,915
Other Taxes:		
Inheritance and Gift	51,402	51,359
Racing and Athletics	1,081	1,081
Realty Transfer	12,842	12,843
Sub-total - Other Taxes	65,325	65,283
Total - General Fund	3,076,712	3,079,215
Intermodal Surface Transportation Fund		
Gasoline	153,862	153,862
RI Highway Maintenance	50,261	50,261
Other Governmental Funds	191,207	191,207
Total Taxes	$ 3,472,042	$ 3,474,545

Note 9. Tax Abatements

For financial reporting purposes (GASB Statement No. 77 - *Tax Abatements*), a tax abatement is defined as a reduction in tax revenues that results from an agreement between one or more governments and an individual entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

The State of Rhode Island has twelve programs in place to abate taxes. Some of those are new, and as of June 30, 2018, have no related foregone tax revenue. Of the twelve programs, seven are managed by the State and five are managed by the Rhode Island Commerce Corporation.

For certain newly created economic development programs with tax abatement provisions, the General Assembly appropriated funds which were paid to the Rhode Island Commerce Corporation (RICC) to fund these programs. Upon notification by the Division of Taxation, the RICC transfers funds to reimburse the State for the amount of foregone tax revenue.

The State has issued Historic Tax Credit Preservation Bonds to fund historic tax preservation credits presented for redemption or as credits to taxes owed to the State. Approximately $25.8 million is available in the Historic Tax Credit Fund at June 30, 2018.

The following is a summary of taxes abated during fiscal 2018 by tax type (expressed in thousands):

Tax Abatement Program	Personal Income	Business Corporation	Insurance Companies	Financial Institutions	Non-Profit Redemption*	Total
Job Development Act	$ —	$ 1,485	$ —	$ 6,449	$ —	$ 7,934
Motion Picture Production Tax Credits	2,216	—	1,561	—	—	3,777
Historic Preservation Tax Credits	5,475	504	15,161	—	4,049	25,189
Job Training Tax Credits	—	1,405	24	—	—	1,429
Tax Credit for Contributions to Qualified Scholarship Organizations	1,371	—	45	9	—	1,425
Wavemaker Fellowship**	62	—	—	—	—	62
Total	$ 9,124	$ 3,394	$ 16,791	$ 6,458	$ 4,049	$ 39,816

* Non-profit entities may request payment for the value of historic prevention tax credits awarded in lieu of a credit to tax liabilities.

**Wavemaker fellows have the option of directly receiving their payments. During the fiscal year ended June 30, 2018 direct payments made to fellows totaled approximately $643 thousand.

Other Commitments under Tax Abatement Agreements - Certain tax abatement programs include commitments by the State other than the reduction of taxes. The Qualified Jobs Incentive Tax Credit and Rebuild Rhode Island Tax Credit programs allow respective entities to redeem tax credits for 90% of their value upon fulfilling its responsibilities under the agreement. The Rebuild Rhode Island Tax Credit program also allows respective entities to receive a rebate of sales and use taxes on construction materials relating to program projects. The Anchor Institution Tax Credit and Wavemaker Fellowship programs include a provision that the entity or individual, as applicable, may redeem the tax credit for 100% of its value upon fulfilling its responsibilities under the agreement. Additionally, non-profit entities may redeem historic tax credits awarded by payment for the value of the credit in lieu of a credit to tax liabilities.

The following pages summarize the key provisions of the tax abatement programs authorized by the State at June 30, 2018.

Program Name:	**Job Development Act**	**Enterprise Zone**
Program purpose:	To foster job creation for companies that create new employment in RI over a three-year period.	To stimulate jobs growth and encourage business development in targeted distressed areas of the State.
Taxes being abated:	Business Corporation, Public Service Corporation, Financial Institution, Insurance Company, or Personal Income	Business Corporation, Public Service Corporation, Financial Institution, Insurance Company, or Personal Income
Authority under which abatements are entered into:	Jobs Development Act (RI Gen. Laws 42-64.5-1) and as amended by Rhode Island New Qualified Jobs Incentive Act 2015 (RIGL 44-48.3-12)	Distressed Areas Economic Revitalization Act - Enterprise Zones (RIGL 42-64.3)
Criteria to be eligible to receive abatements and commitment of the taxpayer:	(1) Subject to a finding of revenue neutrality based on an economic impact analysis conducted by RI Commerce Corporation (RICC); (2) must be approved by the RICC Board of Directors; (3) company must show that "but for" the incentives, the company is not likely to retain, expand or add employment in the State, and that the company has generated new tax revenue for the State that is at least equivalent to the value of this incentive; (4) the company must maintain a certain level of employment as stated in the agreement; (5) new employees must be paid at least 250% of the State minimum wage.	A business has to: (1) be physically located within a State-approved Enterprise Zone (EZ), (2) be registered with the State as an EZ member business, (3) grow its existing workforce by at least 5%, consisting of only RI residents, (4) grow total corporation wages paid over that of the prior year, (5) obtain specific letters of good standing from the State, and (6) receive certification prior to July 1, 2015.
How taxes are reduced:	Reduction of tax rate.	As a credit to the amount of taxes owed.
How abatement is determined:	For example, corporate income tax may be reduced to as low as 3%. The reduction equals: 0.20% for every 10 new jobs created for companies having a baseline employment below 100; or .20% for every 50 new jobs created, for those companies having a baseline employment above 100. Rate reduction(s) discontinued effective July 1, 2015 except for any company that qualified prior to July 1, 2015 which may maintain its reduction so long as it carries out its obligations.	Not more than one type of tax liability can be used to claim the credit. 50% of the wages paid a new hire up to a maximum of $2,500 per new employee; 75% of the wages paid a new hire up to a maximum of $5,000 per new employee if that employee lived within a State-designated EZ. Unused EZ Tax credits can be carried forward for up to 3 years.
Recapture provisions:	N/A	N/A

Program Name:	Qualified Jobs Incentive Tax Credit	Rebuild Rhode Island Tax Credit
Program purpose:	Stimulate business expansion and attraction, create well-paying jobs for State residents, and generate revenues for necessary State and local governmental services.	Stimulate business development; retain and attract new business and industry to the State; create good-paying jobs for State residents; assist with commercial and industrial real estate development; and generate revenues for necessary State and local governmental services.
Taxes being abated:	Business Corporation, Public Service Corporation, Financial Institution, Insurance Company, or Personal Income	Business Corporation, Public Service Corporation, Financial Institution, Insurance Company, or Personal Income
Authority under which abatements are entered into:	Rhode Island Qualified Jobs Incentive Act of 2015 (RIGL Title 44-48.3)	Rebuild Rhode Island Tax Credit Act (RIGL 42-64.20)
Criteria to be eligible to receive abatements and commitment of the taxpayer:	(1) Must create minimum number of new full-time jobs defined in the statute; (2) new full-time jobs must earn at least Rhode Island's median wage; (3) must certify and provide evidence that without the Tax Credit the new full time jobs would not occur within the State; (4) must be approved by the RICC Board of Directors; (5) must perform in accordance with an executed incentive agreement. Applicants may be eligible for Tax Credits for up to 10 years and must commit to remain in the State for 20% longer than the total time tax credit is received.	(1) Applicant must provide equity of at least 20% of project costs; (2) must certify and provide evidence that the project has a financing gap and that the project is not likely to be accomplished by private enterprise without the tax credits; (3) project fulfills the State's policy and planning objectives and priorities including minimum project size, cost, and/or job creation thresholds; (4) must be approved by the RICC Board of Directors; (5) entity must perform in accordance with an executed incentive agreement.
How taxes are reduced:	As a credit to the amount of taxes owed.	As a credit to the amount of taxes owed.
How abatement is determined:	The annual benefit for each new full-time job created is the lesser of (1) the reasonable State income tax withholding generated; or (2) a cap of $2500 to $7500 defined in the incentive agreement and depending on median salary level, location, industry, whether the job is being relocated from out-of-state, number of new full-time jobs, and capital investment being made.	Total tax credit calculated as the lesser of the Project Financing Gap or 30% of Project Costs* up to a maximum of $15 million. Tax Credits are available for up to 5 years in increments ranging from 15% to 30% of total tax credit beginning in the year the project is placed in service. *Tax credits shall not exceed 20% provided, however, that the applicant shall be eligible for additional tax credits of not more than 10% of the project cost, if the project meets other specific, additional criteria as defined in the agreement.
Recapture provisions:	If the Applicant ceases operations in the State or transfers more than 50% of the jobs for which a Tax Credit was granted under the Act to another state, the Tax Credit shall cease, and the Applicant shall be liable to the State for, at a minimum, 20% of all tax benefits granted to the Applicant.	Projects may be required to repay tax credits in the event the project achieves outsized financial returns.

Program Name:	Tax Increment Financing	Anchor Institution Tax Credit
Program purpose:	Stimulate business development; retain and attract new business and industry to RI; create good-paying jobs for RI residents; assist with business, commercial, and industrial real estate development; and generate revenues for necessary State and local governmental services.	Give existing Rhode Island businesses an incentive to encourage businesses in their supply chain, service providers or customers to relocate to Rhode Island by giving existing Rhode Island businesses a tax credit when they are able to bring about a business relocation to the State.
Taxes being abated:	Business Corporation, Public Service Corporation, Financial Institution, Insurance Company, or Personal Income	Business Corporation, Public Service Corporation, Financial Institution, Insurance Company, or Personal Income
Authority under which abatements are entered into:	Rhode Island Tax Increment Financing Act of 2015 (RIGL 42-64.21)	Anchor Institution Tax Credit Act (RIGL 42-64.30)
Criteria to be eligible to receive abatements and commitment of the taxpayer:	(1) Project must be located in a qualifying TIF Area; (2) project must have a financing gap; (3) project must be either a new facility and not a replacement or relocation of an existing facility already located in the State, an expansion of an existing facility that will increase the number of full-time employees in the State, or necessary to retain one or more At Risk Businesses; (4) must be approved by the RICC Board of Directors; (5) must perform in accordance with an executed incentive agreement.	Must be a Rhode Island business that (1) plays a substantial role in the decision of a qualified business to relocate at least 10 employees by 2018 or at least 25 employees between 2019 and 2020; (2) applies for approval prior to the qualified business commencing a relocation search within the State, (3) must be approved by the RICC Board of Directors; (4) must perform in accordance with an executed incentive agreement.
How taxes are reduced:	Eligible taxes are reimbursed to the developer.	As a credit to the amount of taxes owed.
How abatement is determined:	Up to 75% of the projected annual incremental revenues may be allocated under a TIF agreement. Total incentive may not exceed 30% of project costs or the amount needed to close the financing gap. RICC may exempt public infrastructure, a preexisting municipally-owned stadium of 10,000 seats or greater, or utilities from the 30% cap.	An applicant is not eligible to receive a tax credit in excess of 75% of the amount appropriated in the fiscal year in which the tax credits are issued. RICC may take into account (1) the number of new full-time jobs created; (2) the compensation and benefits for those new jobs; (3) how long the new jobs are committed to remain in the State; (4) whether the jobs created are in a targeted Industry; (5) whether the qualifying relocation benefits a Hope Community or occurs in a Redevelopment Area; (6) the strategic importance of the applicant; (7) the economic return to the State; and (8) area brokers' fees.
Recapture provisions:	Tax Credits may be denied or revoked if Applicant's certification or information is found to be willfully false; if the Applicant or successor is convicted of bribery, fraud, theft, embezzlement, misappropriation, and/or extortion involving the State, any State agency or political subdivision of the State.	Incentive agreements shall include a provision specifying for the withholding of any portion of a tax credit or requiring repayment of a tax credit if the qualified business leaves the State within a period of time set forth in the Incentive Agreement.

Program Name:	**Wavemaker Fellowship**	**Motion Picture Production Tax Credits**
Program purpose:	Promote economic opportunity and bring more and higher-paying jobs to the State; offer educational opportunity and retraining to individuals impacted by job loss, workplace injury, disability or other hardship; keep young people in the State; encourage an entrepreneurial economy in the State.	To encourage development in Rhode Island of a strong capital base for motion picture film, videotape, and television program productions, in order to achieve a more independent, self-supporting industry.
Taxes being abated:	Personal Income	Business Corporation, Public Service Corporation, Financial Institution, Insurance Company, or Personal Income
Authority under which abatements are entered into:	Stay Invested in RI Wavemaker Fellowship (RIGL 42-64.26)	RIGL 44-31.2
Criteria to be eligible to receive abatements and commitment of the taxpayer:	Applicants selected on a competitive basis by a fellowship committee on a name-blind and employer-blind basis. Selected applicants shall meet specific criteria for education, student loan debt, and full-time employment with a Rhode Island-based employer located in this State throughout the eligibility period, and employment in a field specified in the agreement.	Primary production locations are to be within the State of Rhode Island, and the total production budget must be at least $100,000. 25% of State certified production costs incurred that are directly attributable to activity within the State.
How taxes are reduced:	As a credit to the amount of taxes owed. Wavemaker fellows may also request payment for the value of the credit awarded.	As a credit to the amount of taxes owed
How abatement is determined:	Awards are limited to $1,000 for an associate's degree holder, $4,000 for a bachelor's degree holder, and $6,000 for a graduate or post-graduate degree holder, and may not exceed the education loan repayment expenses incurred by the selected taxpayer during each service period completed, for up to four (4) consecutive service periods provided that the taxpayer continues to meet the eligibility requirements throughout the eligibility period.	Motion picture production tax credit certificates are issued to the motion picture production company, or to one or more transferees to be applied as a credit to taxes owed.
Recapture provisions:	Tax Credits may be denied or revoked if Applicant's certification or information is found to be willfully false; if the Applicant or successor is convicted of bribery, fraud, theft, embezzlement, misappropriation, and/or extortion involving the State, any State agency or political subdivision of the State.	N/A

Program Name:	Historic Preservation Tax Credits	Job Training Tax Credits
Program purpose:	To create economic incentives for the purpose of stimulating the redevelopment and reuse of Rhode Island's historic structures, as well as to generate the positive economic and employment activities that will result from such redevelopment and reuse.	To encourage employers to invest in retraining or upgrading the skills of their employees.
Taxes being abated:	Business Corporation, Personal Income, Insurance Tax, Insurance - HMO.	Business Corporation, Public Service Corporation, Bank Tax, Insurance Company
Authority under which abatements are entered into:	RIGL 44-33.6	RIGL 42-64.6
Criteria to be eligible to receive abatements and commitment of the taxpayer:	A certified historic structure is to be substantially rehabilitated.	An employer must meet criteria provided by the Human Resources Investment Council (HRIC). Said employer cannot be a physician or anyone whose principal business is providing legal, accounting, engineering, architectural, or other similar professional services.
How taxes are reduced:	As a credit to the amount of taxes owed. Non-profit entities without tax liabilities may request payment for the value of the credit awarded.	As a credit to the amount of taxes owed.
How abatement is determined:	The Division of Taxation issues a certificate in the amount of the qualifying credit for which the rehabilitation qualifies, up to 20% of qualified rehabilitation expenditures, or 25% if a specified portion of the structure will be made available for a trade or business. The maximum credit allowed for any one project is $5,000,000.	The HRIC notifies the applicant whether or not the application is approved. The tax credit is calculated by the employer and claimed on the appropriate tax return, up to 50% of actual training expenses for new and current employees. Tax credit is for up to $5,000 per employee over a three-year period.
Recapture provisions:	N/A	Credit claimed for an employee is recaptured if the employee involuntarily, other than as a result of death or disability, no longer qualifies as a qualifying employee of the employer at any time during the 18-month period following the employee's completion of the program.

Program Name:	Employer's Apprenticeship Tax Credits	Tax Credit for Contributions to Qualified Scholarship Organizations
Program purpose:	To encourage the creation of machine tool, metal trade, and plastic process technician apprenticeships.	To enhance the educational opportunities available to all students in Rhode Island.
Taxes being abated:	Business Corporation	Business Corporation, Public Service Corporation, Bank Tax, Bank Deposits, Insurance Company, Personal Income Tax.
Authority under which abatements are entered into:	RIGL 44-11-41	RIGL 44-62-2
Criteria to be eligible to receive abatements and commitment of the taxpayer:	The apprentice must be enrolled in a registered qualified program through the RI Department of Labor and Training's State Apprenticeship Council. The number of apprenticeships for which credit is calculated must exceed the average number of qualifying apprenticeships begun in the preceding five years.	A business entity is approved by the Division of Taxation if the dollar amount of the tax credit is no greater than $100,000 in any tax year and if the scholarship organization qualified under RIGL 44-62-2. Approvals are available on a first-come-first-served basis, with the total aggregate amount of all tax credits approved not to exceed $1,500,000 in a fiscal year.
How taxes are reduced:	As a credit to the amount of taxes owed.	The Division of Taxation issues a certificate for the amount of credit to be granted.
How abatement is determined:	Based on 50% of actual wages paid to a qualifying apprentice or $4,800, whichever is less.	Unless a two-year contribution plan is in place, the credit is computed at 75% of the total voluntary contribution made. In general, if a two-year contribution plan is in place, the credit for each year shall be 90% of the total voluntary contribution made.
Recapture provisions:	N/A	If the amount of the second-year contribution is less than 80% of the first-year contribution, then the credit for both the first- and second-year contributions shall equal 75% of each year's contribution. In such case, the tax administrator shall prepare the tax credit certificate for the second year at 75%. The difference in credit allowable for the first year (15% of the first-year contribution) shall be recaptured by adding it to the taxpayer's tax in that year.

Note 10. Transfers

Transfers for the fiscal year ended June 30, 2018 are presented below (expressed in thousands):

	Transfers	Description
Governmental Funds		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	$ 49,641	Debt service and operating assistance
Nonmajor Funds		
RI Temporary Disability Insurance	978	Administrative cost
Historic Tax Credit	21,140	Tax credits claimed
Bond Capital	1,503	Interest earnings transfer
RI Capital Plan	60	Capital expenditures
Proprietary Funds		
Lottery	364,974	Net income transfer
Employment Security	32	Administrative cost
Total General	438,328	
Intermodal Surface Transportation		
RI Capital Plan	39,363	Infrastructure funding
Total Intermodal Surface Transportation	39,363	
Nonmajor Funds		
RI Capital Plan		
General	113,208	Transfer statutory excess in budget reserve
Bond Capital	1,382	Premium on new bonds
RI Public Rail Corporation		
Intermodal Surface Transportation	1,534	Operating assistance
Total Nonmajor Funds	116,124	
Total Governmental Funds	593,815	
Proprietary Funds		
Convention Center		
General	19,364	Debt service
RI Capital Plan	2,318	Capital improvement
Employment Security	51	JDF tax revenue
Total Proprietary Funds	21,733	
Total Transfers Primary Government	$ 615,548	

The State transitioned during fiscal 2018 to an internal service fund model for allocating certain costs for human resources administration, information technology, and property management to various functions and activities. The residual balances remaining at June 30, 2017 from the prior allocation methodology approximating $7 million were transferred to the newly created internal service funds.

Note 11. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately $16.1 million for the fiscal year ended June 30, 2018. Most of the operating leases contain an option allowing the State, at the end of the initial lease term, to renew its lease at the then fair rental value. In most cases, it is expected that these leases will be renewed or replaced by other leases.

The following is a summary of material future minimum rental payments (expressed in thousands) required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2018:

Fiscal Year Ending June 30	
2019	$ 15,451
2020	10,546
2021	9,559
2022	8,691
2023	8,392
2024 - 2028	25,322
2029 - 2033	8,806
Total	$ 86,767

The minimum payments shown above have not been reduced by any sublease receipts.

Note 12. Commitments

Primary Government

The primary government is committed at June 30, 2018 under various contractual obligations for transportation infrastructure improvements, construction and renovation of buildings, software development and implementation, and other capital projects. A substantial portion of the cost of these projects will be reimbursed by federal grants, with the remainder principally financed with debt proceeds and Rhode Island Capital Plan Funds.

At June 30, 2018, the primary government had transportation infrastructure design, construction and other contract commitments of approximately $879 million, and contract commitments for the design, construction and renovation of buildings of approximately $67 million. At June 30, 2018 the primary government had software development and implementation contract commitments of approximately $17 million. These amounts include only purchase orders and related amendments generally processed through June 30, 2018. The State is also committed under multiple contracts for ongoing services which are not included in these commitment amounts.

The RI Public Rail Corporation (RIPRC), a special revenue fund, has obtained a letter of credit in the amount of $7.5 million in favor of AMTRAK to secure RIPRC's performance of its obligations arising under any South County Rail Service agreements. RIPRC has been designated as the entity responsible for indemnifying AMTRAK and MBTA , and securing and maintaining liability insurance coverage to provide funds to pay all or a portion of the liabilities of the State, the MBTA, and AMTRAK for property damage, personal injury, bodily injury or death arising out of the South County Commuter Rail Service with policy limits of $295 million, per federal law, subject to a self-insured retention of $7.5 million.

The State entered into a Settlement Agreement and Consent Decree with the United States Department of Justice in 2013 and 2014, respectively. The agreements address findings that the State violated the Americans with Disabilities Act by failing to serve individuals with intellectual and developmental disabilities in integrated settings, and by placing youth with intellectual and developmental disabilities at serious risk of segregation. Under the terms of these agreements, the State is committed to transform its service system over a 10-year period of time. The State is required to achieve certain goals each year. The ultimate goal is to provide integrated employment and day services for Rhode Islanders living with developmental disabilities.

Performance-based Agreements

The R.I. Commerce Corporation (RICC), on behalf of the State, entered into several agreements with the developer of the Providence Place Mall. The agreements state the terms by which the State shall perform with regard to a shopping mall, parking garage and related offsite improvements. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer through fiscal year 2021 of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) $3.7 million in the first five years and $3.6 million in years 6 through 20. In the year ended June 30, 2018, $3.6 million was paid to the developer.

RICC has issued economic development revenue bonds whereby the State will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the State paid $3.1 million of the debt on the related economic development revenue bonds in fiscal year 2018. The State has commitments relating to this debt through fiscal year 2027. In addition, RICC has committed to funding various economic development initiatives that are further described in Note 9, Tax Abatements.

Rhode Island Lottery – Master Contract Agreements

Gaming Systems Provider – International Game Technology (IGT)

During May 2003, the Lottery entered into a 20-year master contract with its gaming systems provider granting them the right to be the exclusive provider of information technology hardware, software, and related services for all lottery games. This contract is effective from July 1, 2003 through June 30, 2023, and amends all previous agreements between the parties.

As consideration for this exclusive right, the gaming systems provider paid the Lottery $12.5 million. In the event that the contract term is not fulfilled, the Lottery will be obligated to refund a pro-rata share of this amount to the gaming systems provider ($3.1 million at June 30, 2018).

The contract mandates commission percentages ranging between 1.00% and 5.00% of lottery ticket sales and 1.00% and 2.50% of video lottery net terminal income, depending on the amount of sales in each category.

On July 1, 2017, the Lottery entered into a Seventh Amendment to the Master Contract with IGT. Under this agreement, IGT shall deploy premium IGT video lottery terminals based on a premium tier and rate table, and receive $500,000 per marketing year for each level of promotional points up to 12.5% of facility net terminal income for the prior marketing year plus $750,000; and also up to 15% of facility net terminal income for the prior marketing year plus $750,000. The maximum amount of promotional points legislatively authorized under the program is 20% of facility net terminal income for the prior marketing year plus $750,000, subject to approval from the Lottery Director. The payments are prorated based on the number of days the premium video lottery terminals are deployed during the fiscal year. In return, IGT waives all rights, remedies, claims and cause of action against the Division in connection with the promotional points program for the facilities redeemed up to 15% of the facility prior year net terminal income plus $750,000. For the first marketing year in which the Division commences operating video lottery terminals at Twin River-Tiverton, the amount of promotional points program is the sum of 50% of the Newport Grand and 50% of the Twin River -Lincoln net terminal income for the prior marketing year.

Video Lottery Facility – UTGR, Inc. (Twin River)

On July 18, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with UTGR, Inc. (UTGR), the owners of Twin River, to manage one of the State’s licensed video lottery facilities. The contract entitles UTGR to compensation ranging from 26% to 28.85% of video lottery net terminal income at the facility. UTGR and the Lottery extended the contract and signed the first five-year extension term commencing on July 18, 2010. The second term commenced on July 18, 2015. Certain extensions are contingent on UTGR's compliance with full-time employment mandates.

The Master Contract has been amended in recent years to reflect the statutory authorization of a promotional points program at Twin River. In fiscal 2018, Twin River was authorized and issued approximately $56.2 million in promotional points to facility patrons. Recent legislation authorizes increases in promotional points from 10% of prior year net terminal income plus $750,000 to 20% of prior year net terminal income plus $750,000. subject to approval from the Lottery Director.

The Lottery is also required by contract to reimburse UTGR for allowable marketing expenses incurred between $4 million and $10 million, and between $14 million and $17 million, at the same percentage as the Lottery's share of net terminal income for the fiscal year (60.85% for 2018). The Lottery reimbursed UTGR for $5,476,500 in marketing expenses for fiscal 2018.

On May 2, 2017, the Lottery entered into a fifth amendment to the Master Contract with UTGR, Inc. authorizing UTGR to construct and operate a hotel at Twin River Casino in Lincoln, RI.

On May 3, 2017, the Lottery entered into a sixth amendment to the Master Contract with UTGR, Inc. providing the option to extend the agreement for two additional five (5) year terms commencing on July 18, 2020 and July 17, 2025 and continuing until July 17, 2030. Certain extensions are contingent on UTGR's compliance with full-time employment mandates. The agreement also effectuates the legislation authorizing and directing the Lottery to operate casino gaming at Twin River-Tiverton and to implement statutory changes regarding the allocation of video lottery net terminal income and net table game revenue at Twin River Casino in Lincoln, RI and Twin River - Tiverton in Tiverton, RI.

On February 6, 2018, the Lottery entered into the Seventh Amendment to the Master Contract with UTGR, Inc. (UTGR) requiring make whole provisions pursuant to the promotional points program for promotional points redeemed. In accordance with the provisions of section 2.1 of the IGT Seventh Amendment to its Master Contract, Twin River - Lincoln facility and for the Twin River - Tiverton facility shall make whole, through the Division, for IGT premium game video lottery terminals at each level of promotional points up to 12.5% and 15% of net terminal income of each facility based on that percentage specified of net terminal income for the prior state fiscal year plus $750,000; or for Tiverton, during its first year of operation, based on the sum of 50% of the Newport Grand and 50% of the Twin River - Lincoln net terminal income for the prior fiscal year. Any further redemption of promotional points above the 15% of prior year net terminal income calculated as indicated above, as approved by the Lottery Director, requires agreement among the Division, IGT and UTGR and Twin River - Tiverton.

Video Lottery Facilities – Premier Entertainment II, LLC (Newport Grand)

On November 23, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with Newport Grand to continue to manage one of the State's licensed video lottery facilities. Newport Grand and the Lottery extended the contract for two five year terms commencing on November 23, 2010 and November 23, 2015. There were requirements for Newport's compliance with full-time employment mandates specified in the 2010 law. The contract, as amended, entitled Newport Grand to compensation equal in percentage of net terminal income to that of Twin River. In addition, Newport Grand was entitled to an increased percentage of net terminal income of 1.9% to be used for approved marketing expenses at Newport Grand.

The Master Contract was amended in recent years to reflect the statutory authorization of a promotional points program at Newport Grand. In fiscal year 2018, Newport Grand was authorized and issued approximately $6.6 million in promotional points to facility patrons. Recent legislation authorizes increases in promotional points from 10% of prior year net terminal income plus $750,000 to 20% of prior year net terminal income plus $750,000, subject to approval from the Lottery Director.

The Master Contract has also been amended to reflect the statutory requirement that the Lottery reimburse Newport Grand for certain allowable marketing expenses incurred between $560,000 and $1.4 million, at the same percentage as the Lottery's share of net terminal income for the fiscal year (61.46% for 2018). The

Lottery reimbursed Premier Entertainment II, LLC for $516,264 in marketing expenses for fiscal 2018. Additionally, recent legislation authorizes an additional reimbursement of 1.9% of current year net terminal income. This resulted in an additional $884,155 paid to Newport Grand. This payment sunsets with the opening of Twin River-Tiverton casino.

On August 28, 2018, Newport Grand ceased operations and the State's license was transferred to the Twin River-Tiverton facility. Marketing expense reimbursements will be prorated based on the number of days each facility is operating in fiscal year 2019. Promotional points thresholds authorized for Twin River - Tiverton will be based on the sum of 50% of net terminal income of Newport Grand for the prior fiscal year plus 50% of net terminal income of Twin River - Lincoln for the prior fiscal year.

Discretely Presented Component Units

R.I. Resource Recovery Corporation

Landfill closure and post-closure:

The Environmental Protection Agency (EPA) established closure and post-closure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. The landfill operated by RIRRC has been segregated into six distinct phases. Phases I, II and III were closed by RIRRC in prior years, while Phase IV reached capacity during fiscal year 2012, with final capping completed during fiscal year 2014. In 2005, RIRRC began landfilling in Phase V, which is near capacity and has temporarily stopped accepting waste. As of December 2015, RIRRC began accepting waste in Phase VI.

A liability for closure and post-closure care of $91.1 million as of June 30, 2018 has been recorded in the statement of net position, as summarized by Phases below:

	Year ended June 30, 2018
Phase I	$ 450,904
Phase II and III	16,371,235
Phase IV	18,231,132
Phase V	43,457,071
Phase VI	12,033,067
Other	590,146
	$ 91,133,555

As of June 30, 2018, the remaining total estimated current cost to be recognized in the future as landfill closure and post-closure care expense, the estimated percent of landfill capacity used and the estimated remaining years for accepting waste are as follows:

	Estimated remaining costs to be recognized	Estimated Capacity Used	Estimated remaining years for accepting waste
Phase V	$ 2,844,606	93.86%	6 months
Phase VI	$ 81,642,629	12.85%	17.1 years

As of June 30, 2018 RIRRC revised its estimate for future pollution remediation and landfill closure and post-closure care costs. The revised estimate resulted in a $13.0 million increase of the corresponding liability from $95.9 million at June 30, 2017 to $108.9 million at June 30, 2018.

Amounts provided for closure and post-closure care are based on current costs. These costs may be adjusted each year due to changes in the closure and post-closure care plan, inflation or deflation, technology, or applicable laws or regulations. It is reasonably possible that these estimates and assumptions could change in the near term and that the change could be material.

Included in restricted component of net position at June 30, 2018 is $55.4 million placed in trust to meet the financial requirements of closure and post-closure care related to Phases II, III, IV, V and VI. RIRRC plans to make additional trust fund contributions each year to enable it to satisfy these and future costs.

Pollution remediation obligations:

Amounts provided for pollution remediation obligations are based on current costs. These costs may be adjusted each year due to changes in the remediation plan, inflation or deflation, technology, or applicable laws or regulations. It is at least reasonably possible that these estimates and assumptions could change in the near term and that the change could be material.

Changes in the pollution remediation obligation for the year ended June 30, 2018 is as follows:

Balance, June 30, 2017	Additions	Reductions	Balance, June 30, 2018	Current Portion
$ 22,177,638	—	$ (3,774,469)	$ 18,403,169	$ 935,840

In prior years, the EPA issued administrative orders requiring RIRRC to conduct environmental studies of the Central Landfill and undertake various plans of action. Additionally, in 1986, the Central Landfill was named to the EPA's Superfund National Priorities List.

During 1996, RIRRC entered into a Consent Decree with the EPA concerning remedial actions taken by RIRRC for groundwater contamination. The Consent Decree, which was approved by the U.S. District Court on October 2, 1996, required the establishment of a trust fund in the amount of $27 million for remedial purposes. The balance of the trust fund totaled $43.6 million as of June 30, 2018.

In 2004, RIRRC began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. RIRRC has recorded a liability for future remediation costs of approximately $18.4 million as of June 30, 2018.

R.I. Turnpike and Bridge Authority

The R.I. Turnpike and Bridge Authority has entered into contracts totaling $28.1 million for bridge and highway repairs on the Mount Hope, Claiborne Pell, Jamestown and Sakonnet River Bridges and on Route 138, which is expected to take over a year to complete. As of June 30, 2018, remaining commitments on these contracts total $8.3 million.

R.I. Public Transit Authority

The R.I. Public Transit Authority is committed under various contracts in the amount of $7.7 million at June 30, 2018.

I-195 Redevelopment District Commission

On September 21, 2017, the Commission sold Lot 1 (formerly part of Parcels 22 and 25) to Providence Innovation District Phase I Owner, LLC, an entity of Wexford Science and Technology, for $1.00 as part of a three-phase development. Wexford broke ground on an approximately 200,000-SF commercial building on the site shortly thereafter. The project will be supported by incentives from the I-195 Project Fund totaling $18.8 million.

Rhode Island Convention Center Authority

Through June 30, 2018, the Authority's remaining commitment under contracts entered into with vendors associated with the construction project involving the parking facility adjacent to the Garrahy Courthouse totaled approximately $36.1 million.

Other Component Units

Other component units have various commitments arising from the normal course of their operations. These commitments are not significant, overall, to the State's financial statements.

Note 13. Contingencies

Litigation - Primary Government

The State, its departments, agencies, officers and employees are defendants in numerous lawsuits and other proceedings. For those cases in which it is probable that a material loss has or will occur and the amount of the potential judgment can be reasonably estimated or a settlement or judgment has been reached but not paid, the State has recognized a liability within its financial statements. Significant specific litigation is discussed below.

Challenges to Pension Reforms

The 2009, 2010 and 2011 legislative pension reforms resulted in numerous lawsuits against the State brought by current and retired employees, as well as their unions. Of these lawsuits, only one remains pending as described below.

In September 2014, a case challenging pension reforms was commenced by the Rhode Island Troopers Association in Superior Court. The State has answered the complaint in that action, which remains pending. In August 2018, the Plaintiffs filed a motion to amend their Complaint. A hearing on that motion has not been set. There is no trial date set. The State intends to vigorously defend this lawsuit.

American Trucking Associations, Inc. et a. v. Alviti

The American Trucking Associations and four trucking companies have sued the State in U.S. District Court challenging, on commerce clause grounds, the "RhodeWorks" program that implements a system of tolls on trucks in Rhode Island. While this matter is presently in federal court, the State of Rhode Island has filed a motion to dismiss this lawsuit from federal court and if it is dismissed, the Plaintiffs will refile in state court. If plaintiffs prevail, restitution could be ordered for all tractor-trailer operators who paid a toll. Through five months of toll collections (with two toll gantries) this amount is approximately $3.7 million; once all gantries are operational expected revenue (and thus potential restitution) is estimated to be $45-50 million per year. This amount of potential restitution is an estimate subject to change based on actual toll collections.

Andrew C. (Previously Cassie M.) v. Raimondo, Executive Office of Health & Human Services (EOHHS) and Department of Children, Youth & Families (DCYF)

Children's Rights Incorporated (CRI) brought suit against DCYF and various other state entities (the State) in 2007 seeking to put the State's child welfare program administered by DCYF under federal court supervision through a class action seeking prospective relief. After various proceedings in the U.S. District Court, the parties reached a mediated settlement which was approved by the U.S. District Court after a fairness hearing in May 2018. As part of the settlement, negotiated attorneys fees were paid. The State has additionally agreed to a series of specific commitments regarding assessments and the delivery of services provided to children in the DCYF's care and the Court will have continuing enforcement jurisdiction to ensure compliance with the agreement. The State will need to provide resources to DCYF to carry out the terms of the settlement agreement and meet its benchmarks. If DCYF does not meet the benchmarks, the State may be liable for costs and attorneys' fees from future litigation for contempt and/or enforcement of the settlement. DCYF management believes they can comply with the requirements of the settlement with current staffing levels, but if it is determined that requirements of the settlement are not being met, DCYF will seek additional positions and associated funding.

Provorse, Neil et al v. State et al

A family sued DCYF for "wrongful adoption," alleging that DCYF failed to disclose the adopted child's severe disabilities. The child also brought separate claims against DCYF in connection with a sexual assault that allegedly occurred while she was in DCYF's care. The Superior Court issued a decision denying the State's motion to dismiss based on the statute of limitations. The State has filed a petition for certiorari with the Rhode Island Supreme Court on the issue. The family also filed a motion for partial summary judgment on issues related to the public duty doctrine and tort cap, which motion has been continued pending a ruling from the Supreme Court on the State's petition. The family is seeking over $2.0 million in damages, and there may be exposure for pre-trial interest exceeding that amount. The case is not likely to be resolved in the near future.

R. I. Department of Transportation (RIDOT) Consent Decree with the EPA

RIDOT has entered into a Consent Decree with the EPA concerning violations of the Clean Water Act by failing to comply with the conditions in the General Permit – Rhode Island Pollutant Discharge Elimination System Storm Water Discharge from Small Municipal Separate Storm Sewer Systems. The Consent Decree was lodged with the U.S. District Court on October 15, 2015 and it was finalized on December 22, 2015. The Consent Decree requires RIDOT to implement remedial actions necessary in order to address discharges to impaired waters, illicit discharge detection and elimination, street sweeping pollution prevention and catch basin and other drainage system component inspection and maintenance. In addition to the remedial measures that must be implemented by RIDOT, RIDOT has paid a civil penalty in the amount of $315 thousand and completed two supplemental environmental projects that require the transfer of certain parcels of land for conservation purposes which have a value of $77 thousand and $158 thousand respectively. The Consent Decree also incorporates stipulated penalties for RIDOT’s failure to meet specific compliance deadlines. To date, RIDOT has met all the required milestones and expects to meet all future milestones outlined in the Consent Decree.

Tobacco Master Settlement Agreement - Tobacco Settlement Financing Corporation

The Tobacco Master Settlement Agreement (the “MSA”) is an agreement entered into between a number of states, including Rhode Island, and major tobacco companies (the Participating Tobacco Manufacturers, or “PMs”) in settlement of certain litigation. Under the MSA, the MSA States have certain obligations to diligently enforce certain state statutes with respect to tobacco manufacturers that are not signatories to the MSA (the “Non-participating Manufacturers”, or “NPMs”). If the PMs decide to dispute an MSA State’s diligent enforcement of such statutes, the PMs may deposit a portion of their annual distribution to such MSA State (the “MSA Payment”) into a Disputed Payments Account (“DPA”) for such MSA State until the dispute is adjudicated. The PMs have annually disputed each MSA State’s diligent enforcement actions. The State has always maintained and continues to maintain that it diligently enforces its applicable statutes against the NPMs.

In fiscal 2017 the State entered into a NPM Adjustment Settlement Agreement (“Settlement”) to resolve disputed payments for 2004 through 2014 (2003 was previously resolved through arbitration in the State’s favor) and subsequently resolved 2015, receiving 75% of the disputed monies for that year with the April 2018 disbursement. Disputed payments arose from a provision in the MSA that allows the PMs to withhold a portion of the annual distribution to the MSA States if certain conditions are met.

Under the Settlement, the PMs agreed not to dispute payments through the years of settlement. At present, for Rhode Island, that is through 2015. It is possible that the PMs could dispute the MSA amounts beginning with the 2016 NPM Adjustment, which could result in the Tobacco Settlement Financing Corporation receiving less revenue than assumed in out-year projections, thereby impacting its ability to service its debt obligations. Under the MSA, if a State is found non-diligent, it could lose up to its entire MSA payment for a given year.

As part of the Settlement, for years 2017-2021, the tobacco companies agreed to give the State/the Corporation 50% of the NPM Adjustment that otherwise would have been deposited in the DPA. Thus, the State will receive certain DPA monies for future potential disputes that it otherwise would not have received until or unless there were to be a diligence determination at a later date.

Under the Settlement Term Sheet, the PMs also would not place into the DPA certain amounts with respect to payment years 2017 through 2021 (reflecting certain disputed amounts relating to years 2014 through and including 2020) that would otherwise be deposited into the DPA and not paid to the MSA States if the MSA States did not join the Settlement Term Sheet.

The Settlement authorized the States and the PMs to split disputed payments 72% state/28% PMs for 2016 and 2017 and 50%/50% in future years. Without this settlement, 100% of the monies for each respective unresolved year would be held in the DPA. The State received $4,915,407 in additional funds in April 2017 and $4,632,611 in April 2018. This represents 72% of the disputed payment amounts for 2016 and 2017, respectively.

The State will continue to vigorously enforce the MSA and related statutes. Although a Settling State that diligently enforces its Qualifying Statute is not subject to the NPM Adjustment, many procedural uncertainties, as described above, remain regarding the NPM Adjustment. Future NPM Adjustment claims for Settling States remain possible for calendar years 2016 and all future years. As discussed above, one of the benefits of the Settlement is that the signatory states and the PMs split disputed payments for future years 50%/50%. When the dispute over a particular year is finally resolved, the prevailing party will receive the other party's 50% as a credit to that year's payment.

Should the PMs be determined with finality to be entitled to a full NPM Adjustment in a future year, thereby requiring the State to return the 50% of a disputed payment it previously received, this could have a material adverse effect on the amounts of Tobacco Settlement Revenues (TSRs) available to the Corporation to make turbo redemptions and other debt service payments on its debt obligations.

Prior to the Settlement Agreement, 100% of a state's MSA Payment in a given year was at risk until the disputed payment issue was resolved. If a state was found non-diligent, the state could lose up to 100% of its MSA Payment for a given year. The Settlement Agreement allows for a reduction in the form of a reduced reimbursement percentage for those states found non-diligent, so the State would retain a portion of its MSA Payment even if found non-diligent for non-settled years. The reimbursement percentages are specific to the year being settled and are also impacted by the number of states found to be non-diligent; thus it is unknown how much of Rhode Island's MSA revenues would be at risk in a given year. However, any finding of non-diligence on the part of the State in future arbitrations could have a material adverse effect on receipt of TSRs. Also, any failure on the part of the PMs to perform their obligations under the MSA and/or the Settlement Agreement could also have a material adverse effect on receipt of future TSRs. A reduction in the amount of TSR's received could affect the Corporation's ability to make turbo redemptions and other debt service payments on its debt obligations.

Unsuccessful litigation has been filed in the past alleging, among other claims, that the MSA violates provisions of the U.S. Constitution, state constitutions, federal antitrust and civil rights laws, and state consumer protection laws. These lawsuits sought to prevent the states from collecting any monies under the MSA, and/or to prevent the tobacco manufacturers from collecting MSA payments through price increases to cigarette consumers. In addition, class action lawsuits have been filed in jurisdictions alleging violations of state Medicaid agreements. While there are currently no known cases pending, such cases could be brought in the future where an adverse ruling could potentially result in the Corporation not having adequate financial resources to service its debt obligations.

For additional information about these matters, please refer to the separately issued Tobacco Settlement Financing Corporation financial statements for the year ended June 30, 2018.

Lottery

The Lottery's master contracts with its video lottery facilities contain revenue protection provisions in the event that existing video lottery facilities incur revenue losses caused by new gaming ventures within the State.

The Lottery's gaming operations currently compete with casinos in nearby Connecticut and Massachusetts. In addition, both neighboring States have already approved or are considering additional casino expansion likely to increase gaming competition in New England. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.

The Narragansett Indian Tribe filed a complaint against the State of Rhode Island in the Rhode Island Superior Court on or about September 28, 2011, challenging, *inter alia*, the constitutionality of the Rhode Island Casino Gaming Act ("Act") on the grounds that it would not be "state-operated" and the Act "delegates unconstitutional authority to a private corporation." On or about June 29, 2012, the Rhode Island Superior Court found that the Narragansett Indian Tribe had not sustained their burden of proof beyond a reasonable doubt that the

Act is facially unconstitutional. The Narragansett Indian Tribe filed a notice of appeal of that decision with the Rhode Island Supreme Court. On or about March 4, 2015, the Rhode Island Supreme Court issued a decision upholding the Superior Court's decision. The remaining issues in the case relating to whether the State "operates" Twin River and Newport Grand facilities remain pending in the Superior Court.

Federal Grants

The State receives significant amounts of federal financial assistance under grant agreements which specify the purpose of the grant and conditions under which the funds may be used. Generally, these grants are subject to audit. The Single Audit for the State of Rhode Island for the fiscal year ended June 30, 2018 will be issued in March 2019. The Single Audit reports instances of federal non-compliance, questioned costs, and other matters to federal grantor agencies regarding the State's administration of federal programs. These matters could result in federal disallowances and/or sanctions upon review by the respective federal agencies. Several findings had potentially significant but unknown or unquantifiable questioned costs as included in prior year Single Audit Reports. The ultimate disposition of these findings rests with the federal grantor agencies, and, in most cases, resolution is still in progress. Adjustments have been made to the financial statements when costs have been specifically disallowed by the federal government or sanctions have been imposed upon the State and the issue is not being appealed or the right of appeal has been exhausted. The fiscal 2018 Single Audit is in progress. It is anticipated that there will be additional questioned costs identified in that audit.

Unresolved Medicaid Prior Audit Findings and Questioned Costs

The federal Centers for Medicare and Medicaid Services (CMS) are pursuing resolution of prior audit findings, applicable to Medicaid, as included in the State's Single Audit Reports for multiple years. The State is working cooperatively with CMS to resolve the prior audit findings. Resolution of the findings, in some instances, may involve return of federal funds to the federal grantor. Liabilities have been reflected in the financial statements when the audit findings and related questioned costs have been resolved by management by determining that repayment of federal funds is necessary. Other audit findings require further resolution activities and discussion with the federal grantor and accordingly management cannot presently estimate any additional amounts that may require repayment to the federal government.

RIBRIDGES / Unified Health Infrastructure Project ("UHIP")

The RIBridges system, also known as the Unified Health Infrastructure Project or UHIP, is Rhode Island's new integrated eligibility system for various health and human services programs and the State's Health Insurance Exchange established pursuant to the ACA. The system was initially implemented in October 2013 to administer the State's Health Insurance Exchange Marketplace and determined eligibility for some categories of Medicaid and CHIP (Children's Health Insurance Program) program participants. In September 2016, additional functionality was implemented to determine eligibility for the remaining categories of Medicaid participants and to determine eligibility and pay benefits for the federal Supplemental Nutrition Assistance (SNAP), Temporary Assistance to Needy Families (TANF), and Child Care programs.

The system implementation has resulted in challenges in determining and/or re-determining eligibility for the programs administered through the new system. This has resulted in application backlogs, delays in delivering timely benefits, and advances to providers impacted by delays in eligibility which prevented claims processing. Control deficiencies relating to the ineffective eligibility system have also resulted in known duplicate capitation payments for Medicaid managed care enrollees, continued Medicaid eligibility for deceased individuals, and extended backlogs for establishing eligibility for newborns.

System development has largely been funded with federal grants and because of the implementation challenges, there has been increased oversight from the federal grantor agencies and requests for immediate corrective actions.

The American Civil Liberties Union sued the State alleging denial of timely benefits to SNAP applicants. In settlement of that suit, the court appointed a special master to oversee the corrective actions necessary to ensure timely determination and payment of benefits through the system. The oversight of the special master continued at June 30, 2018 and subsequently.

The Single Audit Report for the fiscal year ended June 30, 2017 highlighted material noncompliance with federal program compliance provisions for the Medicaid, SNAP, TANF, and CCAP program. Resolution of the audit findings identifying material noncompliance remains pending.

The State has negotiated with the system developer, Deloitte, to recoup some of the system costs expended to date and to receive additional services at no charge to address system deficiencies. Through June 30, 2018, credits totaling approximately $87 million have been applied to cover Deloitte's ongoing costs of implementation and operation. Deloitte is additionally required to reimburse the State for any fines that may be levied on the State by the Food and Nutrition Services (FNS) related to the SNAP program for noncompliance caused by the system implementation.

Efforts to address the implementation issues continue and have resulted in improved system functionality at June 30, 2018 and subsequently. However, various contingencies remain which include potential (1) disallowance of certain system development costs, (2) sanctions imposed by federal grantor agencies for noncompliance with specific program requirements, and (3) requests for return of federal funds for benefits provided to ineligible individuals. Additionally, advances have been made to certain provider groups due to untimely eligibility determinations which has precluded the processing of Medicaid claims. Settlement of such advances by subsequent adjudication of claims for eligible individuals is anticipated but uncertain.

Management has recorded liabilities for known amounts and made estimates for other contingencies where possible. Management cannot presently estimate the likelihood of other contingent liabilities related to the RIBridges/UHIP implementation, however, such amounts could be material to the financial statements.

Moral Obligation Bonds

Some component units issue bonds with bond indentures requiring capital reserve funds. Monies in a capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bondholders. These bonds are considered "moral obligations" of the State when the General Laws require the executive director of the issuing agency to submit to the Governor the amount needed to restore each capital reserve fund to its minimum funding requirement and the Governor is required to include the amount in the annual budget.

R.I. Housing and Mortgage Finance Corporation (RIHMFC)

The R.I. Housing and Mortgage Finance Corporation (RIHMFC) had $29.2 million outstanding in bonds, which are secured in part by capital reserve funds which have aggregated to $4.4 million on June 30, 2018. Under the moral obligation provisions detailed in the preceding paragraph, upon request by the Governor, the General Assembly may, but is not obligated to, provide appropriations for any deficiency in such reserve funds. RIHMFC has never been required to request such appropriations. Such reserve funds relate solely to select multi-family issues of RIHMFC.

R.I. Commerce Corporation (RICC)

At June 30, 2018 in addition to the State's moral obligation under the Job Creation Guaranty Program (JCGP) for the bonds discussed in Note 6 H, certain bonds secured by RICC's capital reserve fund carry a moral obligation of the State. If at any time, certain reserve funds of RICC pledged fall below their funding requirements, a request will be made to the General Assembly to appropriate the amount of the deficiency. Additional outstanding moral obligations relating to these bonds total $15.2 million at June 30, 2018.

Component Units

R.I. Industrial-Recreational Building Authority (RIIRBA)

The R.I. Industrial-Recreational Building Authority (RIIRBA) is authorized to insure contractual principal and interest payments required under first mortgages and first security agreements issued to private sector entities by financial institutions and the Rhode Island Industrial Facilities Corporation (RIIFC), a component unit of the State, on industrial or recreational projects in the State up to a maximum of $60 million of outstanding principal balances under such insured mortgages and security agreements.

Losses, if any, are first payable from RIIRBA's available resources. RIIRBA must then request appropriations of the General Assembly for any losses in excess of insured amounts. RIIRBA's insurance guarantee is backed by the full faith and credit of the State.

At June 30, 2018, RIIRBA has insured contractual principal and interest payments required under first mortgages and first security agreements principally for land and buildings of manufacturing and distribution entities located throughout Rhode Island. Principal balances outstanding under first mortgages and first security agreements insured by RIIRBA at June 30, 2018 are $12.3 million.

RIIRBA insures a bond issued by RIIFC on behalf of a private sector entity. During the year ended June 30, 2012 the private sector entity defaulted on its payments to the bond holder and RIIRBA assumed responsibility for making the debt payments. In July 2018, a mediation settlement in connection with a pending case in the Providence Superior Court was entered into, subject to the formal vote of approval by the board of the Authority. This settlement upon final approval will result in a payment of $1,500,000 to the Rhode Island Industrial Recreational Authority replenishing existing available financial resources. Bond payments will continue to be made by first exhausting RIIRBA's available financial resources and if losses related to the default exceed available resources, the Authority will then request appropriations of the Rhode Island General Assembly for any loss in excess of the insured amount. At June 30, 2018 RIIRBA has determined that it is likely that it will incur an estimated loss under the insured commitment of $2.2 million. Accordingly, RIIRBA has revised the accrued insured commitment payable of $2.0 million recorded at June 30, 2017 to $2.2 million as of June 30, 2018. No request has been made to the General Assembly at June 30, 2018 for appropriations to satisfy any liability under the insurance guarantee.

R.I. Housing and Mortgage Finance Corporation (RIHMFC)

As of June 30, 2018, RIHMFC may borrow up to a maximum of $110 million under various revolving loan agreements expiring between August 2018 and November 2019. Borrowings under the lines of credit are payable on demand and are unsecured.

RIHMFC is party to financial instruments with off-balance sheet risk in connection with its commitments to provide financing. Such commitments expose RIHMFC to credit risk in excess of the amounts recognized in the accompanying statement of net position. RIHMFC's exposure to credit loss in the event of nonperformance by the borrowers is represented by the contractual amount of such instruments. Total credit exposure as a result of loan commitments at June 30, 2018 is $113.6 million.

R.I. Turnpike and Bridge Authority (RITBA)

A contractor (the Prime Contractor) hired by RITBA submitted a pass-through claim to RITBA on behalf of a subcontractor engaged by the Prime Contractor in which the subcontractor is claiming additional compensation of approximately $8,100,000 for cleaning and painting the Newport Pell Bridge as a result of the Prime Contractor's performance. RITBA vigorously disputes the matter and denies any liability to the Prime Contractor and the subcontractor. At this early stage, RITBA and its legal counsel have determined that it is not possible to fully evaluate the matter, including the likelihood of an unfavorable outcome.

University of Rhode Island

On May 31, 2018, a State of Rhode Island Superior court jury awarded the plaintiff a judgment in the amount of $32.15 million from injuries sustained at the Alton Jones Campus of the University of Rhode Island in

2014. The judgment includes interest that accrues annually at 12%. The University is insured through United Educators Insurance with a $1 million underlying policy and a $25 million excess liability policy. An appeal has been filed by the University and its insurance carrier with the Rhode Island Supreme Court. The University and United Educators Insurance intend to seek reversal of the judgment based on well-established precedents under Rhode Island Law. Mandatory mediation has been conducted and an agreement in principle has been reached for a settlement that is expected to be within the policy limits. The impact of this matter, if any, cannot presently be determined, therefore, no liability in these financial statements has been recognized for this contingency.

On January 15, 2018, a suit was filed against the University of Rhode Island, the Council for Postsecondary Education and the Board of Education in the death of an individual , who died as a result of injuries suffered at the hands of an University employee after the employee left work. Discovery is ongoing. No settlement demands or offers have been made as of this date, which is not unusual since the case is relatively new. The impact of this matter, if any, cannot presently be determined.

Other Component Units

Other component units have various contingent liabilities that have arisen in the normal course of their operations. These contingencies are not significant to the State’s financial statements.

Note 14. Employer Pension Plans

A. Summary of Employer Plans

The State provides pension benefits for its employees through multiple retirement benefit plans as outlined below:

	Plan	Plan Type	Covered employees	FY 2018 pension expense (credit)*	Net pension liability at June 30, 2017 measurement date
A	Employees' Retirement System (ERS)	Cost-sharing multiple-employer defined benefit plan – advance funded through a trust	State employees excluding state police and judges		
			Governmental activities	$183,452,000	$2,010,955,000
			Business-type activities	$1,533,000	$16,869,000
			Special funding – teachers - state share (see Note Section 14-E)	$129,755,000	$1,357,577,000
B	State Police Retirement Benefits Trust (SPRBT)	Single-employer defined benefit plan – advance funded through a trust	State Police hired after July 1,1987	$4,895,000	$24,485,000
C	Judicial Retirement Benefits Trust (JRBT)	Single-employer defined benefit plan -– advance funded through a trust	Judges appointed after December 31, 1989	$2,531,000	$7,733,000
D	RI Judicial Retirement Fund Trust (RIJRFT)	Single-employer defined benefit plan - – advance funded through a trust	Covers 7 judges appointed prior to January 1, 1990	$115,000	$19,795,000
E	State Police Retirement Fund Trust (SPRFT)	Single-employer defined benefit plan - – advance funded through a trust	State Police hired before July 1, 1987	($96,504,000)	$159,944,000
F	Judicial Non-Contributory Retirement Plan (JNCRP)	Single employer defined benefit – non trusteed – pay-as-you-go plan	Judges appointed before January 1, 1990 who retired before July 1, 2012	($664,000)	$44,789,000
	Totals			$225,113,000	$3,642,147,000
G	LIUNA – union plan for members of the LIUNA bargaining units	Cost-sharing multiple employer defined benefit plan – "Taft-Hartley" non-governmental plan	Members of the LIUNA bargaining unit.	Not applicable (see note below)	Not applicable (see note below)
H	ERS – Defined Contribution Plan	Multiple employer defined contribution plan	State employees subject to the "hybrid" defined benefit/defined contribution plan provisions	$4,800,000	Not applicable
I	FICA Alternative Retirement Income Security Program	Single employer defined contribution plan	State employees not eligible to participate in the State's other defined benefit plans	Not applicable	Not applicable

*** Pension credits result principally from the immediate recognition of assumption changes for closed plans comprised of retired employees.**

Employer pension expense and related liabilities and deferred inflows of resources/deferred outflows of resources for defined benefit plans A-E as identified above are recognized in the financial statements based on the provisions of GASB Statement No. 68.

Employer pension expense and related liabilities and deferred inflows/outflows for defined benefit plan F as identified above are recognized in the financial statements consistent with the provisions of GASB Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68*. The State provides these benefits on a pay-as-you-go basis rather than through an advance funding arrangement and a qualifying trust.

The LIUNA sponsored, cost-sharing, multiple-employer pension plan (plan G) is not a state or local government pension plan. As there is no required employer contribution for covered employees, no employer pension expense is reflected in these financial statements. Consistent with the requirements of GASB Statement No. 78, there is no recognition of an employer proportionate net pension liability, if any.

Pension expense recognized for the defined contribution plans (H and I) – is recognized based on actual employer contributions required and made during the fiscal year consistent with the requirements of GASB Statement No. 68 regarding defined contribution plans. There is no required employer contribution to the FICA Alternative Retirement Income Security Program.

Plan membership, based on the June 30, 2016 actuarial valuations (with the exception of JNCRP which has a June 30, 2017 valuation date), is summarized in the table below:

	Retirees and beneficiaries	Terminated plan members entitled to but not yet receiving benefits	Active Vested	Active Non-vested	Total by Plan
ERS-State Employees	11,058	3,071	8,501	2,582	25,212
JRBT	20	—	14	38	72
RIJRFT	2	—	5	—	7
SPRBT	56	47	39	207	349
SPRFT	269	—	—	—	269
JNCRP	53	—	—	—	53

B. Defined Benefit Plan Descriptions – Advance Funded Plans

EMPLOYEES' RETIREMENT SYSTEM (ERS) - The ERS was established and placed under the management of the Retirement Board for the purpose of providing retirement allowances for employees of the State of Rhode Island under the provisions of chapters 8 to 10, inclusive, of Title 36, and public school teachers under the provisions of chapters 15 to 17, inclusive, of Title 16 of the Rhode Island General Laws.

Plan members - The plan covers most State employees other than certain personnel at the State colleges and university (principally faculty and administrative personnel). The plan also covers teachers, including superintendents, principals, school nurses, and certain other school officials in the public schools in the cities and towns. Membership in the plan is mandatory for all covered state employees and teachers. Elected officials may become members on an optional basis and legislators may participate if elected to office prior to January 1, 1995.

Certain employees of the Rhode Island Airport Corporation (hired before July 1, 1993), the Rhode Island Commerce Corporation (active contributing members and employees of the Department of Economic Development before October 31, 1995 who elected to continue membership) and the Narragansett Bay Water Quality District Commission (members of a collective bargaining unit) are also covered and have the same benefits as State employees.

Plan vesting provisions – *after five years of service.*

Retirement eligibility and plan benefits – are summarized in the following table:

Schedule	Schedule Criteria	Retirement eligibility	Benefit accrual rates	Maximum benefit
(A)	Completed 10 years of service on or before July, 1, 2005 and eligible to retire as of September 30, 2009	Age 60 with 10 years of service or after 28 years of service at any age	Effective until June 30, 2012: 1.7% for each of first ten years 1.9% for each of next ten years 3.0% for each of next fourteen years 2% for the 35th year Effective July 1, 2012: 1.0% per year through June 30, 2015 Effective July 1, 2015: for members with 20 years of service as of July 1, 2012: 2% per year	80% of final average earnings (3 consecutive highest years)
(AB)	Completed 10 years of service on or before July, 1, 2005 but ineligible to retire as of September 30, 2009	Minimum retirement age of 62 and ten years of service with a downward adjustment of the minimum retirement age based on the years of service credit as of September 30, 2009	Effective until June 30, 2012: Same accrual rates as (A) above to September 30, 2009 and then Schedule B rates (below) thereafter Effective July 1, 2012: 1.0% per year through June 30, 2015 Effective July 1, 2015, for members with 20 years of service as of July 1, 2012: 2% per year	80% of final average earnings (5 consecutive highest years)
(B)	Less than 10 years of service before July 1, 2005 and eligible to retire as of September 30, 2009	Age 65 with 10 years of service or after 29 years of service and age 59	Effective until June 30, 2012: 1.6% for each of first ten years 1.8% for each of next ten years 2.0% for each of next five years 2.25% for each of next five years 2.5% for each of next seven years 2.25% for the 38th year Effective July 1, 2012: 1.0% per year	75% of final average earnings (5 consecutive highest years)
(B1)	Less than 10 years of service before July 1, 2005 and ineligible to retire as of September 30, 2009	Age 65 with ten years of service, or age 62 with at least 29 years of service with a downward adjustment of the minimum retirement age based on the years of service credit as of September 30, 2009	Same as Schedule B	75% of final average earnings (5 consecutive highest years)
(B2)	Less than 5 years of service as of July 1, 2012	Social Security Retirement Age and 5 years of contributory service	1.6% for each of first ten years Effective July 1, 2012: 1.0% per year	75% of final average earnings (5 consecutive highest years)

Effective July 1, 2015 general employees with more than 20 years of service at July 1, 2012 increased their employee contribution rates to 11% and will participate solely in the defined benefit plan. Members will receive a benefit accrual of 2% per year based on the three or five year average compensation.

Effective July 1, 2015 employees are eligible to retire upon attainment of: age 65 with 30 years of service, 64 with 31 years of service, 63 with 32 years of service or 62 with 33 years of service. Members may retire earlier if their RIRSA date is earlier or are eligible under a transition rule.

State correctional officers may retire at age 50 with 20 years of service. However, if not eligible to retire as of September 30, 2009, the minimum retirement age was modified to 55 with 25 years of service credit for correctional officers and registered nurses at the Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals.

The plan provides for survivor's benefits for service-connected death and certain lump sum death benefits.

Joint and survivor options are available to members. For members with 10 years of service as of July 1, 2005, the Service Retirement Allowance (SRA) Plus option provides for the payment of a larger benefit before the attainment of age sixty-two (62) and a reduced amount thereafter. The reduced amount is equal to the benefit before age sixty-two (62), including cost-of-living increases, minus the member's estimated social security benefits payable at age sixty-two (62).

Vested members that have 10 or more years of contributing service credit on June 30, 2012, may choose to retire at a retirement eligibility date that was calculated as of September 30, 2009, if the member continues to work and make retirement contributions until that date. If the member chooses this option, their retirement benefits will be calculated using the benefit that they have accrued as of June 30, 2012 - members will accumulate no additional defined benefits after this date, but the benefit will be paid without any actuarial reduction.

State employees and public school teachers may retire with a reduced pension benefit if they have 20 years of service credit and they are within five years of their retirement date as prescribed in the Rhode Island Retirement Security Act (RIRSA). The actuarially reduced benefit will be calculated based on how close the member is to their RIRSA eligibility date.

Cost of Living Adjustments - The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT and JRBT plans reach a funded status of 80%. The COLA provision will be reviewed in a four-year interval while the plans are less than 80% funded. When the collective funding level of a plan exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5% (5-year return - 5.0%, with a max of 4%) and 50% calculated using the increase in the CPI-U from the prior September 30 (max of 3%) for a total maximum COLA of 3.5%.

The benefit adjustments are provided to all retirees entitled to receive a benefit adjustment as of June 30, 2012 under the law then in effect, and for all other retirees, the benefit adjustments shall commence upon the third anniversary of the date of retirement or the date on which the retiree reaches his or her Social Security retirement age, whichever is later. For members (and their beneficiaries) retiring after June 30, 2015, the annual benefit adjustment provided in any calendar year is equal to the lesser of either the member's retirement allowance or the first $26,291 (indexed as of January 1, 2018) of retirement allowance multiplied by the percentage resulting from the COLA calculation as outlined in the preceding paragraph. The retirement amount subject to the COLA calculation is indexed annually in the same percentage as the COLA determination and is run annually regardless of the collective funding status.

For members and/or beneficiaries of members who retired on or before June 30, 2015 the current indexed amount of $26,291 is replaced with $31,549 (indexed as of January 1, 2018) until the funded ratio of the ERS, SPRBT and JRBT, calculated by the system's actuary on an aggregate basis, exceeds eighty percent (80%). At such time, the benefit adjustments will then be provided on the lower amount (currently indexed at $26,291).

Disability retirement provisions - The plan also provides nonservice-connected disability benefits after five years of service and service-connected disability pensions with no minimum service requirement. Effective for applications filed after September 30, 2009, accidental disability will be available at 66 2/3% for members who are permanently and totally disabled as determined by the Retirement Board. If the disability is determined to be partial and the member is able to work in other jobs, the benefit will be limited to 50%. Disability benefits are subject to annual review by the Retirement Board.

Other plan provisions - Service credit purchases, excluding contribution refund paybacks and military service, requested after June 16, 2009 are calculated at full actuarial cost.

JUDICIAL RETIREMENT BENEFITS TRUST (JRBT) - The Judicial Retirement Benefits Trust was established under Rhode Island General Laws 8-8.2-7; 8-3-16; 8-8-10.1; 28-30-18.1; and was placed under the management of the Retirement Board for the purpose of providing retirement allowances to Justices of the Traffic Tribunal, Supreme, Superior, Family, District and Workers Compensation courts.

Plan members – The plan covers all Judges appointed after December 31, 1989.

Retirement eligibility and plan benefits – are summarized in the following table:

	Retirement benefit
Judges appointed after December 31, 1989 but before July 2, 1997	75% of the final salary at the time of retirement after 20 years of service, or 10 years of service and attainment of age 65. Judges retiring after 20 years of service after age 65 or 15 years of service after age 70 receive full retirement benefits, which is the final salary at time of retirement.
Judges appointed after July 2, 1997 but before January 1, 2009	Same as above except, salary is the average highest three (3) consecutive years of compensation rather than final salary.
Judges appointed after January 1, 2009 but before July 1, 2009	Judges with 20 years of service after age 65 or judges with 15 years of service after age 70 will receive 90% of the average of the highest three consecutive years of compensation. Judges appointed on or after January 1, 2009 with 10 years of service and age 65 or 20 years of service at any age are entitled to a reduced benefit of 70% of the average highest three consecutive years of compensation. Judges designating a survivor benefit with 20 years of service and age 65 or 15 years of service and age 70 receive a reduced benefit equal to 80% of the average highest three consecutive years of compensation. Judges designating a survivor benefit with 10 years of service after age 65 or 20 years of service at any age receive a reduced benefit equal to 60% of the average highest three consecutive years of compensation.
Judges appointed after July 1, 2009	Judges with 20 years of service after age 65 or with 15 years of service after age 70 will receive 80% of the average of the highest five consecutive years of compensation. Judges with 10 years of service and age 65 or 20 years of service at any age are entitled to a reduced benefit of 65% of the average highest five consecutive years of compensation. Judges designating a survivor benefit with 20 years of service and age 65 or 15 years of service and age 70 receive a reduced benefit equal to 70% of the average highest five consecutive years of compensation. Judges designating a survivor benefit with 10 years of service after age 65 or 20 years of service at any age receive a reduced benefit equal to 55% of the average highest five consecutive years of compensation.

Certain survivor benefits are also provided to judges who are plan members, which is 50% of the benefit amount payable to the judicial member.

Cost of Living Adjustments - The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT and JRBT plans reach a funded status of 80%. The COLA provision will be reviewed in a four-year interval while the plans are less than 80% funded. When the collective funding level of a plan exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5% (5-year return - 5.0%, with a max of 4%) and 50% calculated using the increase in the CPI-U from the prior September 30 (max of 3%) for a total maximum COLA of 3.5%.

The benefit adjustments are provided to all retirees entitled to receive a benefit adjustment as of June 30, 2012 under the law then in effect, and for all other retirees, the benefit adjustments shall commence upon the third anniversary of the date of retirement or the date on which the retiree reaches his or her Social Security retirement age, whichever is later. For members (and their beneficiaries) retiring after June 30, 2015, the annual benefit adjustment provided in any calendar year is equal to the lesser of either the member's retirement allowance or the first $26,291 (indexed as of January 1, 2018) of retirement allowance multiplied by the percentage resulting from the COLA calculation as outlined in the preceding paragraph. The retirement amount subject to the COLA calculation is indexed annually in the same percentage as the COLA determination and is run annually regardless of the collective funding status.

For members and/or beneficiaries of members who retired on or before June 30, 2015 the current indexed amount of $26,291 is replaced with $31,549 (indexed as of January 1, 2018) until the funded ratio of the ERS, SPRBT and JRBT, calculated by the system's actuary on an aggregate basis, exceeds eighty percent (80%). At such time, the benefit adjustments will then be provided on the lower amount (currently indexed at $26,291).

STATE OF RHODE ISLAND JUDICIAL RETIREMENT FUND TRUST (RIJRFT) - Effective July 1, 2012, and pursuant to Rhode Island General Law section 8-3-16, the retirement board established a trust to collect proceeds for the purpose of paying retirement benefits to participating judges or their beneficiaries.

Plan members – The plan covers seven (7) judges appointed prior to January 1, 1990. These members are active judges (as of June 30, 2012) appointed prior to January 1, 1990 that do not participate in the Judicial Retirement Benefit Trust. Prior to creating the trust, benefits for these members were intended to be funded on a pay-as-you-go basis. To the extent assets in the trust are insufficient to fund member benefits, the State would also fund retirement benefits on a pay-as-you-go basis as it does for sixty-five (65) retired judges and surviving beneficiaries who were not members of either judicial plan. The employee contribution rate is 12% of salary (except for members of the Supreme Court who contribute 8.75%).

Retirement eligibility and plan benefits – The plan generally provides retirement benefits for members who have served as a justice of the Supreme Court, the Superior Court, the Family Court or the District Court, for 20 years (or a combination of service in various courts) and has reached the age of 65 years, or has served 15 years, and reached the age of 70 years. These members may retire from regular service and receive a benefit equal to the annual salary the member was receiving at the time of their retirement. Members of the Traffic Tribunal who served as a justice for 20 years, or has served for 10 years and reached age 65 years may retire from regular service and receive a benefit equal to the 75% of the annual salary at the time of retirement. However, any Traffic Tribunal judge who has served 20 years and has reached age 65 years, or has served for 15 years and has reached age 70 years may retire from active service and receive a benefit equal to the annual salary the justice was receiving at the time of their retirement.

Cost of Living Adjustments - The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT and JRBT plans reach a funded status of 80%. The COLA provision will be reviewed in a four-year interval while the plans are less than 80% funded. When the collective funding level of a plan exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5% (5-year return - 5.0%, with a max of 4%) and 50% calculated using the increase in the CPI-U from the prior September 30 (max of 3%) for a total maximum COLA of 3.5%.

The benefit adjustments are provided to all retirees entitled to receive a benefit adjustment as of June 30, 2012 under the law then in effect, and for all other retirees, the benefit adjustments shall commence upon the third anniversary of the date of retirement or the date on which the retiree reaches his or her Social Security retirement age, whichever is later. For members (and their beneficiaries) retiring after June 30, 2015, the annual benefit adjustment provided in any calendar year is equal to the lesser of either the member's retirement allowance or the first $26,291 (indexed as of January 1, 2018) of retirement allowance multiplied by the percentage resulting from the COLA calculation as outlined in the preceding paragraph. The retirement amount subject to the COLA calculation is indexed annually in the same percentage as the COLA determination and is run annually regardless of the collective funding status.

For members and/or beneficiaries of members who retired on or before June 30, 2015 the current indexed amount of $26,291 is replaced with $31,549 (indexed as of January 1, 2018) until the funded ratio of the ERS, SPRBT and JRBT, calculated by the system's actuary on an aggregate basis, exceeds eighty percent (80%). At such time, the benefit adjustments will then be provided on the lower amount (currently indexed at $26,291).

STATE POLICE RETIREMENT BENEFITS TRUST (SPRBT) - The State Police Retirement Benefits Trust was established under Rhode Island General Law Section 42-28-22.1 and was placed under the management of the Retirement Board for the purpose of providing retirement allowances to State Police.

Plan members – The plan covers all State Police and Superintendents hired after July 1, 1987.

Retirement eligibility and plan benefits – Prior to June 30, 2012 the plan generally provides retirement benefits equal to 50% of final salary after 20 years of service, plus 3.0% of final salary times service in excess of 20 years through 25 years to a maximum of 65% of final salary. Such benefits are available to members after 20 years of service regardless of age. The Superintendent of the State Police will receive 50% of his/her final salary and may retire after attainment of age 60 and 10 years of service.

The General Laws were amended such that any member of the State Police, other than the Superintendent, who is hired on or after July 1, 2007 and who has served for twenty-five (25) years shall be entitled to a retirement allowance of 50% of the final salary. In addition, any member may serve up to a maximum of 30 years and shall be allowed an additional amount equal to 3.0% for each completed year served after 25 years to a maximum retirement allowance not to exceed 65% of the final salary.

Benefits are based on the final base salary earned at retirement including longevity increment, holiday pay, clothing allowance and up to 400 overtime hours.

Effective July 1, 2012 State Police officers are eligible to retire once they have accrued a retirement benefit equal to 50% of their whole salary, with mandatory retirement once they have accrued a retirement benefit equal to 65% of their whole salary. State Police officers will earn a 2% accrual rate for each year of contributing service. Benefits will be calculated on the average of the highest five consecutive years of salary, including up to 400 hours of mandatory overtime service. Benefits accrued as of June 30, 2012 will be protected under the Rhode Island Retirement Security Act.

Cost of Living Adjustments - The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT and JRBT plans reach a funded status of 80%. The COLA provision will be reviewed in a four-year interval while the plans are less than 80% funded. When the collective funding level of a plan exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5% (5-year return - 5.0%, with a max of 4%) and 50% calculated using the increase in the CPI-U from the prior September 30 (max of 3%) for a total maximum COLA of 3.5%.

The benefit adjustments are provided to all retirees entitled to receive a benefit adjustment as of June 30, 2012 under the law then in effect, and for all other retirees, the benefit adjustments shall commence upon the third anniversary of the date of retirement or the date on which the retiree reaches his or her Social Security retirement age, whichever is later. For members (and their beneficiaries) retiring after June 30, 2015, the annual benefit adjustment provided in any calendar year is equal to the lesser of either the member's retirement allowance or the first $26,291 (indexed as of January 1, 2018) of retirement allowance multiplied by the percentage resulting from the COLA calculation as outlined in the preceding paragraph. The retirement amount subject to the COLA calculation is indexed annually in the same percentage as the COLA determination and is run annually regardless of the collective funding status.

For members and/or beneficiaries of members who retired on or before June 30, 2015 the current indexed amount of $26,291 is replaced with $31,549 (indexed as of January 1, 2018) until the funded ratio of the ERS, SPRBT and JRBT, calculated by the system's actuary on an aggregate basis, exceeds eighty percent (80%). At such time, the benefit adjustments will then be provided on the lower amount (currently indexed at $26,291).

Disability retirement provisions - The plan provides nonservice-connected disability benefits after 10 years of service and service-connected disability pensions with no minimum service requirement.

STATE POLICE RETIREMENT FUND TRUST (SPRFT) - Effective July 1, 2016 and pursuant to Rhode Island General Law section 42-28-22.1,the retirement board established a trust to collect proceeds for the purpose of paying retirement benefits to participating members of the state police initially hired on or before July 1, 1987, or their beneficiaries.

Plan members - the plan covers members of the state police hired on or before July 1, 1987. Prior to creating the trust, benefits for these members were intended to be funded on a pay-as-you-go basis.

Retirement eligibility and plan benefits - The plan generally provides retirement benefits equal to 50% of final salary after 20 years of service, members that retired after July 1, 1972 could earn an additional 3.0% of final salary times service in excess of 20 years through 25 years to a maximum of 65% of final salary. Such benefits are available to members after 20 years of service regardless of age.

Cost of Living Adjustments - The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT and JRBT plans reach a funded status of 80%. The COLA provision will be reviewed in a four-year interval while the plans are less than 80% funded. When the collective funding level of a plan exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5% (5-year return - 5.0%, with a max of 4%) and 50% calculated using the increase in the CPI-U from the prior September 30 (max of 3%) for a total maximum COLA of 3.5%.

The benefit adjustments are provided to all retirees entitled to receive a benefit adjustment as of June 30, 2012 under the law then in effect, and for all other retirees, the benefit adjustments shall commence upon the third anniversary of the date of retirement or the date on which the retiree reaches his or her Social Security retirement age, whichever is later. For members (and their beneficiaries) retiring after June 30, 2015, the annual benefit adjustment provided in any calendar year is equal to the lesser of either the member's retirement allowance or the first $26,291 (indexed as of January 1, 2018) of retirement allowance multiplied by the percentage resulting from the COLA calculation as outlined in the preceding paragraph. The retirement amount subject to the COLA calculation is indexed annually in the same percentage as the COLA determination and is run annually regardless of the collective funding status.

For members and/or beneficiaries of members who retired on or before June 30, 2015 the current indexed amount of $26,291 is replaced with $31,549 (indexed as of January 1, 2018) until the funded ratio of the ERS, SPRBT and JRBT, calculated by the system's actuary on an aggregate basis, exceeds eighty percent (80%). At such time, the benefit adjustments will then be provided on the lower amount (currently indexed at $26,291).

C. Defined Benefit Advance Funded Plans - Summary of Significant Accounting Policies

The Fiduciary Net Position presented for defined benefit plans which are advance funded and accounted for in a trust has been determined on a basis consistent with that used by the respective plans in preparing their financial statements. ERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at http://www.ersri.org.

The plans' basis of accounting and accounting policies, including those related to benefit payments and valuation of plan investments is summarized below.

Basis of Accounting

The financial statements of the ERS are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the wages, subject to required contributions, are earned for the performance of duties for covered employment. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Disclosures regarding methods used to value investments and investment expenses are included in Note 2C, Pension Trusts.

D. Defined Benefit Plan – Non-Contributory (pay-as-you-go) Pension Plan

In addition to the defined benefit plans administered by the ERS, the State also administers one other non-trusteed single employer defined benefit pension plan that is closed to new members. The Judicial Non-Contributory Retirement Plan (JNCRP) provides retirement benefits to judges appointed before January 1, 1990 and who retired before July 1, 2012. The plan was created by statute and has historically been funded by the State on a pay-as-you-go basis. Accordingly, no assets have been accumulated to pay benefits under this non-trusteed plan.

Pension benefits paid under the JNCRP are generally determined based on years of service at retirement and are payable to the retiree or their beneficiary. JNCRP members, in general, are eligible for full retirement benefits equal to their final annual compensation at age 65, if the member has served for 20 years, or at age 70 with 15 years of service. The plan has provisions that allow survivors, upon the death of the participant, to continue to receive a portion of the participant's benefit.

E. Special Funding Situation – ERS Plan – Teachers

The State is required by law to contribute 40% of the cost of providing retirement benefits for teachers covered by the Employees' Retirement System. Under GASB Statement No. 68, for teachers, the State is considered to be a non-employer contributing entity under a special funding situation. The total net pension liability for teachers covered by the Employees' Retirement System measured as of June 30, 2017 is approximately $3.1 billion and the State' share of the net pension liability is approximately $1.4 billion. The State's share of the net pension liability for teachers has been allocated based upon the statutory contribution percentage and is reflected in the Statement of Net Position as of June 30, 2017 as Net Pension Liability-Special Funding Situation. The State's proportion for the special funding situation for the teachers covered in the ERS Plan was 43.05% percent, an increase of 2.40% percent since the prior reporting period. Benefit provisions, contribution requirements, and other information related to the measurement and proportionate share of the net pension liability under a special funding situation for teachers are described in other sections of this Note relating to the ERS plan.

F. Contributions and Funding Policy

Contribution requirements for plan members and participating employers are established pursuant to the Rhode Island General Laws. With the exception of the RIJRFT, employers are required by statute to contribute at an actuarially determined rate for the respective defined benefit plans.

The fiscal year 2018 contribution rates for the Employees' Retirement System, the State Police Retirement Benefits Trust, and the Judicial Retirement Benefits Trust were based on the actuarial valuation of those plans performed as of June 30, 2015. The Rhode Island Judicial Retirement Fund Trust is not currently funded. Employees make contributions to the plan; however the State is not making full actuarially determined contributions. This plan is for a closed group of individuals and the amortization payment has been calculated based on level-dollar amortization over 17 years from June 30, 2013. The Rhode Island State Police Retirement Fund Trust is a closed group of individuals and the annual contributions into the Trust have been calculated on a level-dollar amortization over 18 years from June 30, 2016. The non-contributory judges (JNCRP) plan is financed on a pay-as-you-go basis.

A summary of the contribution rates by both the participating employers and members and the State's annual pension plan contributions (expressed in thousands) for the fiscal year ended June 30, 2018 is provided in the table below:

	ERS	JRBT	RIJRFT*	SPRBT	SPRFT*	JNCRP
Contribution rate:						
State	24.87%	21.13%	$1,322	12.22%	$16,387	—
Plan members	3.75% and 11.00%	8.75% and 12.00%	8.75% and 12.00%	8.75%	—	—
State contribution for teachers	9.89%	—	—	—	—	—
Contributions made for state employees	$157,404	$2,064	$399	$2,802	$16,387	$5,486
Contribution made for teachers	$98,121	—	—	—	—	—

* Actuarially determined contribution not expressed as a rate

ERS Plan Supplemental Contributions - The General Laws (Section 36-10-2(a) 1 and 2) also require, in addition to the contributions provided for by the funding policy, for each fiscal year in which the actuarially determined state contribution rate for state employees and teachers is lower than that for the prior fiscal year, the governor shall include an appropriation to that system equivalent to twenty percent (20%) of the rate reduction to be applied to the actuarial accrued liability. The amounts to be appropriated shall be included in the annual appropriation bill and shall be paid by the general treasurer into the retirement system. The retirement system's actuary shall not adjust the computation of the annual required contribution for the year in which supplemental contributions are received; such contributions once made may be treated as reducing the actuarial liability remaining for amortization in the following actuarial valuation to be performed. For fiscal year 2018, the contribution to the System required in accordance with this provision of the General Laws was $598,086.

The Retirement Security Act provides for additional contributions to the System based on 5.5% of the value of contracts where the services performed by the contractor were previously performed by state employees. A supplemental contribution of $461 thousand was paid to the System pursuant to Section 42-149-3.1 of the General Laws.

Employer contributions to the defined contribution plan are also prescribed by statute. In addition, plan member contributions for both the defined benefit and defined contribution plans are set by statute. Member and employer contribution rates can be changed by the General Assembly.

ERS Plan Special funding situation for local teachers - the State is required by law to contribute 40% of the cost of providing retirement benefits for teachers covered by the Employees' Retirement System. Because the State deferred certain payments to the System in 1990/1991 and 1991/1992 the State's actual share of the total annual contributions is approximately 43.05%. Under GASB Statement No. 68, for teachers, the State is considered to be a non-employer contributing entity under a special funding situation.

G. Net Pension Liability

The net pension liability of the State and other participating employers in the Employees' Retirement System, a multiple-employer cost-sharing plan, has been apportioned based on the percentage share of total contributions made by each employer in fiscal year 2017. The State's proportion for the ERS Plan for State employees was 89.19 percent, an increase of 0.26 percent since the prior reporting period.

Following is a summary of the net pension liability of the State and other employers participating in the Employees' Retirement System as well as the State's liability related to the five single employer defined benefit plans it sponsors, all measured as of June 30, 2017 (expressed in thousands and excluding amounts related to teachers under the special funding arrangement discussed above):

Total Net Pension Liability - Employees' Retirement System (ERS) - State Employees		$ 2,254,756
Less portion attributable to other entities:		
Enterprise Fund - Rhode Island Lottery		$ (16,869)
Discretely Presented Component Units		
University of Rhode Island	$ 127,133	
Rhode Island College	43,866	
Community College of RI	32,467	
RI Division of Higher Education Assistance	1,648	
RI Commerce Corporation	305	
RI Airport Corporation	2,136	
		(207,555)
Related organization - Narragansett Bay Commission		(19,377)
ERS - Net Pension Liability - Governmental Activities		$ 2,010,955
Net Pension Liability - Single Employer Defined Benefit Pension Plans		
JRBT		7,733
RIJRFT		19,795
SPRBT		24,485
SPRFT		159,944
JNCRP		44,789
Total Net Pension Liability		$ 2,267,701

Further details regarding the State's total pension liability and net pension liability for the single employer trusteed defined benefit pension plans (expressed in thousands) which was measured as of June 30, 2017 is presented below:

	JRBT	RIJRFT	SPRBT	SPRFT
Total pension liability	$ 75,628	$ 20,442	$ 154,274	$ 175,957
Plan fiduciary net position	67,895	647	129,789	16,013
Net pension liability	$ 7,733	$ 19,795	$ 24,485	$ 159,944
Plan fiduciary net position as a percentage of total pension liability	89.8%	3.2%	84.1%	9.1%

a. Actuarial assumptions used in determining total pension liability

The total pension liability was determined by actuarial valuations performed as of June 30, 2016 and rolled forward to the June 30, 2017 measurement date, using the following actuarial assumptions, applied to all periods included in the measurement.

	ERS						
	State Employees	Teachers	JRBT	RIJRFT	SPRBT	SPRFT	JNCRP
Valuation Date	6/30/2016 rolled forward to 6/30/2017	6/30/2016 rolled forward to 6/30/2017	6/30/2016 rolled forward to 6/30/2017	6/30/2016 rolled forward to 6/30/2017	6/30/2016 rolled forward to 6/30/2017	6/30/2016 rolled forward to 6/30/2017	6/30/2017
Actuarial Cost Method	Entry Age Normal-the Individual Entry Age Actuarial Cost methodology is used						
Assumptions							
Investment Rate of Return	7.00%	7.00%	7.00%	3.56%	7.00%	7.00%	3.56%
Projected Salary increases	3.25% to 6.5%	3.0% to 13.5%	3.50%	3.50%	3.75% to 11.75%	N/A	N/A
Inflation	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Mortality	Male employees: RP-2014 Combined Healthy For Males with Blue Collar adjustments, projected with Scale Ultimate MP16. Female employees: RP-2014 Combined Healthy For Females, projected with Scale Ultimate MP16. Male Teachers: RP-2014 Combined Healthy for Males with White Collar adjustments, projected with Scale Ultimate MP16. Female Teachers: RP-2014 Combined Healthy for Females with White Collar adjustments, projected with Scale Ultimate MP16.						
COLA	Post-retirement Benefit Increase: Post-retirement benefit increases are assumed to be 2.1%, per annum, while the plan has a funding level that exceeds 80%; however, an interim COLA will be granted in four-year intervals while the COLA is suspended. The first such COLA will be applicable in Calendar Year 2017. As of June 30, 2017, it is assumed that the COLAs will be suspended for 10 years due to the current funding level of the plans. The actual amount of the COLA is determined based on 50% of the plan's five-year average investment rate of return minus 5.00% which will range from zero to 4.0%, and 50% of the lesser of 3% or last year's CPI-U increase for a total maximum increase of 3.50%.						

The actuarial assumptions used in the calculation of the total pension liability at the June 30, 2017 measurement date were consistent with the 2017 Actuarial Experience Investigation Study for the six year period ended June 30, 2016 and as approved by the System's Board on May 15, 2017.

Factors affecting trends for amounts related to the net pension liability

As part of the 2017 Actuarial Experience Investigation Study for the six-year period ending June 30, 2016 as approved by the System Board on May 15, 2017, certain assumptions were modified and reflected in the determination of the net pension liability (asset) at the June 30, 2017 measurement date. The following summarizes the more significant changes in assumptions:

- Decreased the general inflation assumption from 2.75% to 2.50%;
- Decreased the nominal investment return assumption from 7.50% to 7.00%;
- Decreased the general wage growth assumption from 3.25% to 3.00%;
- Decreased salary increase assumptions; and
- Updated the post-retirement mortality tables to variants of the RP-2014 table. For the improvement scale, updated to the ultimate rates of the MP-2016 projection scale.

For RIJRFT, the municipal bond index rate, based on fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" (3.56% at June 30, 2017) was applied to all periods of projected benefit payments to determine the total pension liability instead of the plan's assumed investment rate of return of 4%.

The long-term expected rate of return best-estimate on pension plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of pension plan investment expense and inflation) for each major asset class, based on a collective summary of capital market expectations from 35 sources. The June 30, 2017 expected arithmetic returns over the long term (20 years) by asset class are summarized in the following table:

Asset Class	Long-term Target allocation	Long-term expected arithmetic real rate of return
Global Equity		
U.S. Equity	20.60%	6.85%
International Developed Equity	15.90%	6.71%
Emerging Markets Equity	3.50%	8.91%
Private Growth		
Private Equity	11.30%	9.62%
Non-Core RE	2.20%	5.17%
OPP Private Credit	1.50%	9.62%
Income		
High Yield Infrastructure	1.00%	4.26%
REITS	1.00%	5.17%
Liquid Credit	2.80%	4.26%
Private Credit	3.20%	4.26%
Crisis Protection Class		
Treasury Duration	4.00%	0.83%
Systematic Trend	4.00%	3.81%
Inflation Protection		
Core Real Estate	3.60%	5.17%
Private Infrastructure	2.40%	5.57%
TIPs	1.00%	1.72%
Natural Resources	1.00%	3.98%
Volatility Protection		
IG Fixed Income	11.50%	2.12%
Absolute Return	6.50%	3.81%
Cash	3.00%	0.83%
	100.00%	

These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall long-term expected rate of return best-estimate on an arithmetic basis.

b. Discount rate

The discount rate used to measure the total pension liability of the plans was 7.0 percent for all plans but the RIJRFT and JNCRP plans. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

For the RIJRFT and JNCRP plans, the State has not opted to make actuarially determined employer contributions and based on those assumptions, the pension plans' fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. Consequently, for those plans, the municipal bond index rate, based on fixed-income mutual bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index", (3.56% at June 30, 2017) was applied to all periods of projected benefit payments to determine the total pension liability.

c. Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the employers calculated using the discount rate of 7.0% (for all plans except the RIJRFT and JNCRP), as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate. The RIJRFT and JNCRP plans' fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members and consequently the municipal bond index rate of 3.56% at June 30, 2017 was used in the determination of the net pension liability for those plans with a similar +1/-1 % sensitivity analysis (expressed in thousands):

Governmental Activities:

	1.00% Decrease (6.00%)	Current Discount Rate (7.0%)	1.00% Increase (8.00%)
ERS - State employees	$ 2,504,147	$ 2,010,955	$ 1,643,602
ERS - Teachers (State share)	$ 1,706,150	$ 1,357,577	$ 1,097,946
JRBT	$ 16,358	$ 7,733	$ 1,311
SPRBT	$ 42,019	$ 24,485	$ 11,432
SPRFT	$ 181,290	$ 159,944	$ 144,039

	1.00% Decrease (2.56%)	Municipal Bond Index Rate (3.56%)	1.00% Increase (4.56%)
RIJRFT	$ 22,075	$ 19,795	$ 18,099
JNCRP	$ 48,006	$ 44,789	$ 41,957

Business-type Activities:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Rhode Island Lottery:			
ERS Plan - State Employees	$ 21,006	$ 16,869	$ 13,787

H. Changes in the Net Pension Liability

Information on the State's net pension liability for single employer plans is as follows (expressed in thousands):

	JRBT	RIJRFT	SPRBT	SPRFT	JNCRP*
Total Pension Liability					
Service cost	$ 3,001	$ 350	$ 4,498	$ —	$ —
Interest	5,031	586	9,393	7,990	1,380
Benefit changes					
Differences between expected and actual experience	(1,789)	—	10,694	(181)	182
Changes of assumptions	5,173	(666)	9,274	(103,520)	(2,291)
Benefit payments	(2,739)	(399)	(5,142)	(17,392)	(5,763)
Net change in Total Pension Liability	8,677	(129)	28,717	(113,103)	(6,492)
Total Pension Liability - beginning	66,951	20,571	125,557	289,060	51,281
Total Pension Liability - ending	$ 75,628	$ 20,442	$ 154,274	$ 175,957	$ 44,789
Plan Fiduciary Net Position					
Employer contributions	$ 2,057	$ 332	$ 2,980	$ 31,566	$ —
Employee contributions	1,118	117	2,060	—	—
Net investment income	7,107	64	13,694	1,839	—
Benefit payments	(2,740)	(399)	(5,142)	(17,392)	—
Administrative expenses	(65)	(1)	(125)	—	—
Other	—	—	5	—	—
Net change in Fiduciary Net Position	$ 7,477	$ 113	$ 13,472	$ 16,013	$ —
Plan Fiduciary Net Position - beginning	60,418	534	116,317	—	—
Plan Fiduciary Net Position - ending	$ 67,895	$ 647	$ 129,789	$ 16,013	$ —
Net Pension Liability	$ 7,733	$ 19,795	$ 24,485	$ 159,944	$ 44,789

*This is a non-trusteed plan which historically has been funded on a pay-as-you-go basis; therefore no assets have been accumulated and total pension liability and net pension liability are the same.

I. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

Employees' Retirement System of Rhode Island

For the fiscal year ended June 30, 2018 the State recognized net pension expense of $95.4 million related to State employees who are covered by the pension plans administered by ERS as well as the JNCRP. In addition, it recognized an Education expense of $129.8 million in the Statement of Activities relating to the State's share of the pension expense for teachers who are covered by the ERS.

At June 30, 2018 the State reported deferred outflows of resources and deferred inflows of resources related to its participation in the ERS from the following sources (expressed in thousands):

Governmental Activities:

	State Employees	Teachers	Totals
Deferred Outflows of Resources			
State contributions subsequent to the measurement date	$ 156,083	$ 98,121	$ 254,204
Net difference between projected and actual earnings on pension plan investments	45,189	34,293	79,482
Changes of assumptions	169,503	118,565	288,068
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,212	59,040	63,252
Totals	$ 374,987	$ 310,019	$ 685,006
Deferred Inflows of Resources			
Differences between expected and actual experience	$ 41,021	$ 32,185	$ 73,206
Changes of assumptions	5,466	21,393	26,859
Changes in proportion and differences between employer contributions and proportionate share of contributions	541	1,484	2,025
Totals	$ 47,028	$ 55,062	$ 102,090

The $156.1 million reported as deferred outflows of resources related to pensions resulting from State contributions to ERS subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2019. In addition, the $98.1 million reported as deferred outflows of resources related to pensions resulting from State contributions to ERS for the teachers plan subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows (inflows) of resources related to pensions will be recognized in the determination of pension expense as follows (expressed in thousands):

	State Employees	Teachers
Year ended June 30:		
2019	$ 29,878	$ 22,833
2020	62,763	45,435
2021	48,025	28,707
2022	23,930	4,845
2023	7,280	22,625
Thereafter	—	32,391
	$ 171,876	$ 156,836

Business-type Activities:

Deferred Outflows of Resources		
Contributions subsequent to the measurement date	$	1,321
Net difference between projected and actual earnings on pension plan investments		379
Changes of assumptions		1,422
Changes in proportion and differences between employer contributions and proportionate share of contributions		178
Totals	$	3,300
Deferred Inflows of Resources		
Differences between expected and actual experience	$	344
Changes of assumptions		46
Changes in proportion and differences between employer contributions and proportionate share of contributions		297
Totals	$	687

The $1.3 million reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows (inflows) of resources related to pensions will be recognized in the determination of pension expense as follows (expressed in thousands):

Year ended June 30:		
2019	$	249
2020		524
2021		351
2022		121
2023		47
Thereafter		—
	$	1,292

Other Single Employer Pension Plans

For the fiscal year ended June 30, 2018 the table below provides information about pension expense (credit) recognized for each of the State's five single employer plans (expressed in thousands):

Plan	Annual Pension Expense (Credit)
JRBT	$ 2,531
RIJRFT	115
SPRBT	4,895
SPRFT	(96,504)
JNCRP	(664)
Total	$ (89,627)

The June 30, 2017 measurement date information includes a pension credit of $96.5 million for the SPRFT plan which results from a change in assumption attributable to the establishment of an advance funded trust (effective July 1, 2016) that replaced the previous plan which was funded on a pay-as-you-go basis. As allowed by GASB standards, the discount rate for advance funded plans used in actuarial calculations of net pension liability is typically higher than the discount rate used for pay-as-you-go plans. Higher discount rates result in lower pension expense. The discount rate for the SPRFT plan increased from 2.85% to 7.00% with the establishment of the advance funded trust, which resulted in a large pension credit. GASB standards require the immediate recognition of this change in the discount rate assumption since the SPRFT plan is a closed plan that is comprised entirely of retired employees.

A pension credit of $664 thousand for the JNCRP plan results from an increase in the discount rate from 2.85% to 3.56%. GASB standards require the immediate recognition of this change in the discount rate assumption since the JNCRP plan is a closed plan that is comprised entirely of retired employees. Accordingly, the effect of this change in assumption has been recorded in fiscal 2018 and is reflected in the pension credit total of $664 thousand.

At June 30, 2018 the State reported deferred outflows of resources and deferred inflows of resources related to its participation in the single employer plans from the following sources (expressed in thousands):

	JRBT	RIJRFT	SPRBT	SPRFT	JNCRP	Totals
Deferred Outflows of Resources						
Employer contributions subsequent to the measurement date	$ 2,058	$ 399	$ 2,797	$ 16,387	$ 5,486	$ 27,127
Net difference between projected and actual earnings on pension plan investments	1,074	5	2,032	—	—	3,111
Differences between expected and actual experience	—	—	9,629	—	—	9,629
Change of Assumptions	4,168	—	8,351	—	—	12,519
Totals	$ 7,300	$ 404	$ 22,809	$ 16,387	$ 5,486	$ 52,386
Deferred Inflows of Resources						
Net difference between projected and actual earnings on pension plan investments	$ —	$ —	$ —	$ 1,046	$ —	1,046
Differences between expected and actual experience	3,663	—	5,867	—	—	9,530
Change of assumptions	215	—	224	—	—	439
Totals	$ 3,878	$ —	$ 6,091	$ 1,046	$ —	$ 11,015

The amount of $27.1 million reported as deferred outflows of resources, related to pensions resulting from State contributions to the single employer plans subsequent to the measurement date, will be recognized as a reduction in the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows(inflows) of resources related to pensions will be recognized in the determination of pension expense as follows (expressed in thousands):

Year ending June 30	JRBT	RIJRFT	SPRBT	SPRFT	JNCRP	Totals
2019	$ 97	$ 3	$ 1,660	$ (262)	$ —	$ 1,498
2020	835	4	3,078	(262)	—	3,655
2021	352	2	1,945	(261)	—	2,038
2022	(15)	(4)	223	(261)	—	(57)
2023	95	—	1,219	—	—	1,314
Thereafter	—	—	5,796	—	—	5,796
	$ 1,364	$ 5	$ 13,921	$ (1,046)	$ —	$ 14,244

J. Defined Benefit Plan - LIUNA

All State employees who are members of the Laborers' International Union of North America (LIUNA), in addition to participating in ERSRI, also participate in the LIUNA National Pension Fund (the Plan), a cost sharing multi-employer defined benefit plan subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. The Plan is administered by the Fund's Board of Trustees. Eligibility and benefit provisions are defined in the Plan document adopted by the Board of Trustees. As of June 30, 2018, 844 employees of the State were members of the Plan.

All employees who are members of LIUNA are eligible to participate in the Plan. An employee is eligible for a regular pension if they have attained age 62, have five or more years of pension credits and have had at least one pension credit in a year after contributions paid to the Plan by an employer on their behalf began. Vesting of benefits is attained for participants who have five or more years of vesting service, at least one year of which was earned during the period in which the employer paid contributions to the Plan on behalf of the participant. Participants who pay their own contributions are immediately and fully vested in their accrued benefits, plus interest credited to their account. Benefit amounts for employees of the same age with the same years of service may be different because their employers' contribution to the Pension Fund may have been at different levels. The Plan allows for an optional immediate 25% partial lump sum for all surviving spouses of participants who died pre-retirement with an actuarially reduced monthly benefit to be paid at age 55. Information regarding the Plan can be obtained from the Fund Office maintained by the Board of Trustees at the following address: Laborers' International Union of North America National (Industrial) Pension Fund, 905 16th Street, N.W., Washington, DC 20006-1765, or at www.lnipf.org.

The contribution requirements of the State and employees are established by contract and may be amended by union negotiation. Employees are required to contribute $0.70 to $1.57 per hour up to a maximum of 1,820 hours per year to the Plan for calendar year 2018. The State is not required to contribute to the Plan.

The Multiemployer Pension Plan Amendments Act of 1980 imposes certain liabilities upon employees associated with multiemployer pension plans who withdraw from such a plan or upon termination of said plan. The State has no plans to withdraw or partially withdraw from the plan.

K. Defined Contribution Plan - ERS

Plan Description - Employees participating in the Employees Retirement System (ERS) defined benefit plan with less than 20 years of service as of June 30, 2012, as described above, also participate in a defined contribution plan of the Employees' Retirement System as authorized by General Law Chapter 36-10.3. The defined contribution plan is established under IRS section 401(a) and is administered by TIAA-CREF. The Retirement Board is the plan administrator and plan trustee. The employees ("members") may choose among various investment options available to plan participants. The State Investment Commission is responsible for implementing the investment policy of the plan and selecting the investment options available to members.

Plan contributions - Members contribute 5% of their annual covered salary and employers contribute 1% to 1.5% of annual covered salary, depending on years of service as of June 30, 2012. Member contributions are immediately vested while employer contributions are vested after three years of contributory service. Contributions required under the plan by both the members and employers are established by the General Laws, which are subject to amendment by the General Assembly.

The State contributed and recognized as pension expense $4.8 million for the fiscal year ended June 30, 2018, equal to 100% of the required contributions for the fiscal year.

Plan vesting and contribution forfeiture provisions – The total amount contributed by the member, including associated investment gains and losses, shall immediately vest in the member's account and is non-forfeitable. The total amount contributed by the employer, including associated investment gains and losses, vests with the employee and is non-forfeitable upon completion of three (3) years of contributory service. Non-vested employer contributions are forfeited upon termination of employment. Such forfeitures can be used by employers to offset future remittances to the plan.

Retirement benefits – Benefits may be paid to a member after severance from employment, death, plan termination, or upon a deemed severance from employment for participants performing qualified military service. At a minimum, retirement benefits must begin no later than April 1 of the calendar year following the year in which the member attains age 70½ or terminates employment, if later.

The System issues a publicly available financial report that includes financial statements and required supplementary information for plans administered by the system. The report may be obtained at http://www.ersri.org.

L. Defined Contribution Plan - FICA Alternative Retirement Income Security Program

The State of Rhode Island FICA Alternative Retirement Income Security Program (the FARP) is a defined contribution (money purchase) plan that operates under Section 401(a) of the Internal Revenue Code. The FARP was established under Rhode Island General Law section 36-7-33.1 and was placed under the management of the State's Department of Administration (DOA), which also serves as the FARP plan sponsor. The FARP took effect on December 15, 2013. TIAA serves as record keeper for the FARP, and FARP assets are held by J.P. Morgan as investment custodian.

Plan members – Eligible members of the FARP are any part-time, seasonal, or temporary employees of the State of Rhode Island, hired after July 1, 2013, who are ineligible for participation in the Employees' Retirement System of Rhode Island (ERSRI). With the exception of the One-Time Opt-Out Provision described below, participation in the FARP is mandatory for these employees. Part-time, seasonal, or temporary employees hired prior to July 1, 2013, who do not participate in the ERSRI may opt to continue contributing to Social Security for the duration of their continuous employment.

One-time opt-out provision – The FARP contains a provision which allows a FARP-eligible employee, hired after July 1, 2013, to opt-out or elect to not participate in the FARP. An employee who opts to not participate will continue to make FICA contributions and the State will continue to make FICA contributions on behalf of the employee. An employee who opts to not participate in the FARP may subsequently, without penalty, choose to participate in the FARP; this election is irrevocable as long as the employee is a FARP-eligible employee.

Plan vesting provisions – The total amount contributed by the member, including associated investment gains and losses, shall immediately vest in the member's account and is non-forfeitable. The State does not make matching contributions to the FARP.

Member accounts – Each member's account is credited with the member's contribution and an allocation of the plan's earnings. Allocations are based on a relationship of the member's account balance in each investment fund to the total of all account balances in that fund. The retirement benefit to which a member is entitled is the benefit that can be provided from the member's account.

Contributions – FARP benefits are funded by contributions from the participants as specified in RI General Law section 36-7-33.1. FARP participants make mandatory payroll deduction contributions to the FARP equal to 7.5% of the employee's gross wages for each pay period.

Investment options – Member and employer contributions must be invested in one of the Vanguard Target Retirement Trusts, which are age-appropriate.

Retirement benefits – Benefits may be paid to a member after termination from employment, death, total disability, or upon attaining age 59½. In the case of termination, a 10% IRS penalty upon withdrawal will apply if the member is younger than 55 years of age. At a minimum, retirement benefits must begin no later than April 1 of the calendar year following the year in which the member attains age 70½ or terminates employment, if later.

M. Other Pension Plans – Component Units

Certain employees of the University of Rhode Island, Rhode Island College and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan. Eligible employees who have reached the age of 30, and who have two years of service are required to participate in either the Teachers Insurance and Annuity Association, the Metropolitan Life Insurance Company, or Variable Annuity Life Insurance Company retirement plan. Eligible employees must contribute at least 5% of their gross biweekly earnings. The University and Colleges contribute 9% of the employees' gross biweekly earnings. Total expenses by the institutions for such annuity contracts amounted to approximately $19.1 million during the year ended June 30, 2018

The Rhode Island Public Transit Authority has two single-employer defined benefit pension plans that cover eligible employees. The first plan covers those in Amalgamated Transit Union (ATU) Division 618, ATU Division 618A, and Laborers' International Union (LIU) Local 808. The second plan covers all other employees who work more than 1,000 hours per year. The plans provides retirement, disability and death benefits to plan members and beneficiaries. Benefits vest upon completion of ten years of service. Authority employees are eligible to retire upon attainment of normal retirement age (62, or if later, upon completion of 5 years of service). Retired employees are entitled to a monthly benefit for life as stipulated in the plan provisions. Employees are required to contribute 3% of their base salary to their respective plan each year until the earlier of the participant's normal retirement date or termination of service. The remaining contributions to the plan are made by the Authority. At June 30, 2017 the plans' total pension liabilities exceeded the plans' fiduciary net position by an aggregate amount of $61.5 million. Accordingly, a net pension liability of that amount has been recorded as of June 30, 2018. For the fiscal year ended June 30, 2018 pension expense of $10.6 million was recorded related to the plans. Other information about the plans can be found in the audited financial statements of RIPTA which are available at www.ripta.com.

The Rhode Island Commerce Corporation (RICC) sponsors a cost sharing multiple-employer pension plan for all employees who were hired before January 1, 2006 and who meet eligibility requirements. Eligible employees of Quonset Development Corporation, another component unit, who were hired before January 1, 2006 also participate in the plan. The plan provides retirement, disability and death benefits to plan members and beneficiaries. Benefits vest upon completion of five years of service. The plan assigns to RICC the authority to amend benefit provisions. At June 30, 2017, the plan's total pension liability exceeded the plan's fiduciary net position by $83.2 thousand. Accordingly, a net pension liability in that amount has been recorded as of June 30, 2018. For the fiscal year ended June 30, 2018 pension expense of $229 thousand was recorded related to this plan. Other information about the plan can be found in the audited financial statements of RICC which are available at www.commerceri.com.

Certain other component units have defined contribution pension and savings plans. For information regarding these pension and savings plans, please refer to the component units' separately issued financial reports.

Note 15. Other Postemployment Benefit Plans

A. Summary of Employer Plans

The State provides other postemployment benefits (OPEB) for its employees through multiple benefit plans as outlined below (expressed in thousands):

	Plan	Plan Type	Covered employees	FY 2018 OPEB expense (credit)	Net OPEB liability (asset) at June 30, 2017 measurement date
A	State Employees	Cost-sharing multiple-employer plan – advance funded through a trust	State employees excluding state police, legislators and judges		
			Governmental activities	$ 34,549	$ 463,597
			Business-type activities	$ 288	$ 3,864
B	Teachers	Single-employer plan – advance funded through a trust	Certified public school teachers electing to participate in the System	$ 1,781	$ 3,055
C	Judges	Single-employer plan - advance funded through a trust	Judges and magistrates	$ (92)	$ (2,378)
D	State Police	Single-employer plan - advance funded through a trust	State police officers	$ 5,044	$ 44,886
E	Legislators	Single-employer plan - advance funded through a trust	Retired and former members of the General Assembly	$ (43)	$ (1,379)
F	Board of Education (BOE)	Cost-sharing multiple-employer plan – advance funded through a trust	Certain employees of the Board of Education inclusive of URI, RIC, CCRI and the Office of Higher Education	$ 8	$ 111
	Totals			$ 41,535	$ 511,756

The Rhode Island State Employees' and Electing Teachers OPEB System (the "System") acts as a common investment and administrative agent for benefits to be provided for six defined benefit other postemployment plans as listed above.

The System is administered by the State of Rhode Island OPEB Board and was authorized, created and established under Chapter 36-12.1 of RI General Laws. The Board was established under Chapter 36-12.1 as an independent board to hold and administer, in trust, the funds of the OPEB system. The four members of the OPEB Board are: the State Controller, the State Budget Officer, the State Personnel Administrator and the General Treasurer, or their designees.

The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans and a description of the benefit structures. The report may be obtained by writing to the State Controller's Office, 1 Capitol Hill, Providence, RI 02908.

The System's financial statements are included as Trust Funds within the Fiduciary Funds.

The OPEB Trust Funds are reported using the economic resources measurement focus and the accrual basis of accounting under which expenses, including benefits and refunds, are recorded when the liability is incurred. Employer contributions are recorded in the accounting period in which they are earned or become measurable.

Additional disclosure regarding the methods used to value investments and investment expenses are included in Note 2D, OPEB Trust Funds.

Employer OPEB expense and related liabilities and deferred inflows of resources/deferred outflows of resources for defined benefit plans A-F as identified above are recognized in the financial statements based on the provisions of GASB Statement No. 75.

Plan membership, based on the June 30, 2017 actuarial valuations, is summarized in the table below:

	Retirees and beneficiaries	Active	Total by Plan
State Employees	6,730	11,169	17,899
Teachers	146	N/A	146
Judges	47	61	108
State Police	173	233	406
Legislators	18	111	129
Board of Education (BOE)	862	1,859	2,721

Terminated employees are not included in the valuation.

B. Benefit Plan Descriptions

Members of the System, which include State employees, legislators, judges, State police officers, certified public school teachers and employees of certain component units, if they meet certain eligibility requirements, are eligible to receive some form of retiree health care benefits. In addition, certain employees of the Board of Education receive benefits under another plan known as the Rhode Island Board of Education Health Care Insurance Retirement Program (hereafter referred to as the “BOE Plan”).

Membership and Benefit Provisions

The plans within the System generally provide healthcare coverage to pre-Medicare eligible retirees and health reimbursement account contributions or Medicare supplement coverage for members who are Medicare eligible. Members may purchase coverage for spouses and dependents. Depending on the plan and the time of retirement, the cost to purchase coverage for spouses and dependents is either at the “active rate” applicable to active employees or at the retiree rate. Dental and vision coverage is generally not provided (except for those plans that allow active health care coverage to continue after retirement - judges, state police and legislators). Dental and vision coverage may be purchased by these groups with no state subsidy.

Members of the System must meet the eligibility and services requirements set forth in the RI General Laws or other governing documents. RIGL Sections 16-17.1-1 and 2, 36-10-2, 36-12.1, 36-12-2.2 and 36-12-4 govern the provisions of the System, and they may be amended in the future by action of the General Assembly.

Active employees (other than the Board of Education active members) do not make contributions to the respective plans. Retired member contributions consist of the required retiree share of coverage based on the time of retirement and years of service. Other member contributions include purchased coverage for spouses or dependents or for non-subsidized coverage for dental and vision care.

A summary of the principal provisions of the plans follow:

State Employees

For members age 59 through 64 who retire on or after October 1, 2008, with a minimum of 20 years of service, the State pays 80% of the actual cost of health care coverage.

At age 65, State retirees must purchase Medicare Part B (deducted from their Social Security payment) and may enroll in a health reimbursement account plan to which the OPEB Trust contributes an amount. The amount deposited by the State into each HRA varies based on the date of retirement and years of service at retirement but is based on the lowest-cost Medicare supplemental plan available through the program that meets the plan requirements defined in the law. Amounts available in each retiree's HRA can be used for any eligible medical care expense including reimbursement for health insurance premiums.

For State employees who retired on or before September 30, 2008, the State provides two types of subsidies for health care benefits. The Tier I subsidy applies to non-Medicare eligible plans and provides that the State will pay the portion of the cost of retiree health care for the retiree and any dependents above the active group rate. The retiree pays the active group monthly rate and the State pays the difference between the active group rate and the early retiree rate. This subsidy is not based on years of service and ends at age 65. In addition to the Tier I benefits, the State pays a portion of the cost of retiree health care above the Tier I costs for certain retirees meeting eligibility requirements based upon the age and service of the retiree, which is referred to as the Tier II benefit.

Employees retiring on or before September 30, 2008 who are under 60 year of age at retirement may retire with a minimum of 28 years of service and must pay 0% - 10% of retiree health care costs, as determined by the number of years of each employee's service. Employees retiring on or before September 30, 2008 who are 60 years of age or over at retirement may retire with a minimum of 10 years of service and must pay 0% - 50% of retiree health care costs, as determined by the number of years of each employee's service.

Teachers

Teachers who elect to participate in the System and retired on or before September 30, 2008, receive the Tier I subsidy but no other State cost sharing. For all teachers retiring on or after October 1, 2008, the Tier I subsidy ends and there is no other cost sharing by the State. Retired teachers may purchase coverage through the System at the actual cost for retirees.

Judges

Effective July 1, 2012 new retirees (and spouses and dependents) that are eligible for Medicare are required to enroll in Medicare and a Medicare Supplemental plan. Retirees who retired before that date are able to continue on the active health care plan provided they enroll in Medicare Part B.

State Police

Retired state police officers (including spouses and dependents) receive the active health care plan benefits or Medicare supplement coverage with the same co-share amount in effect at the date of their retirement.

Legislators

Effective July 1, 2012 new retirees (and spouses and dependents) that are eligible for Medicare are required to enroll in Medicare and a Medicare Supplemental plan. Retirees who retired before that date can continue on the active health care plan provided they enroll in Medicare Part B.

Board of Education

The BOE Plan offers three types of retiree health care benefits: (1) a self-insured health care plan for retirees not covered by Medicare, (2) a self-insured Medicare supplement plan for Medicare eligible post-65 retirees and (3) a fully insured Medicare HMO plan for Medicare eligible post-65 retirees.

The Tier I non-Medicare eligible plan subsidy provides that the Board will pay the portion of the cost of post-retirement health care for the retiree between the active group rate and the early retiree rate. This subsidy is based on years of service and ends when the retiree enrolls in Medicare. This subsidy is available only to eligible employees retiring before July 1, 2008.

To be eligible for coverage, the retiree retiring before July 1, 2008 must have worked a minimum of 10 years for the Board and must be at least 60 years of age, unless they have 28 years or more of service. Depending on the years of service and the retiree's age, the Board will pay from 50% to 100% of medical insurance premium while the retiree contributes from 50% to 0%.

Employees retiring after June 30, 2008, who are not yet 65 years of age, who have worked a minimum of 10 years for the Board and are at least 60 years of age or who have 28 years or more of service, may purchase health insurance coverage at the actual (100%) retiree premium rate for themselves and their spouses. The Board will continue to pay a portion of the post-65 Tier II benefits, 50% to 100% of medical insurance premium, depending on the years of service and the retiree's age while the retiree will contribute from 50% to 0%.

Active employees covered by the BOE plan contribute .9% of their salary. The contribution of employees covered under the BOE plan can be changed by the Board of Education.

C. Contributions and Funding Policy

Contribution requirements for plan members and participating employers are established pursuant to the Rhode Island General Laws and may be amended by the General Assembly.

Beginning in fiscal year 2011, the State and other participating employers were required by law to fund the plans on an actuarially determined basis. For the fiscal year ended June 30, 2018, the State and other participating employers paid $58 million into the plans.

The fiscal year 2018 contribution rates for the six plans in the System were based on the actuarial valuation of those plans performed as of June 30, 2015.

A summary of the contribution rates by both the participating employers and members and the State's annual plan contributions (expressed in thousands) for the fiscal year ended June 30, 2018 is provided in the table below:

	State Employees	Teachers	Judges	State Police	Legislators	BOE
Contribution rate:						
Employer	5.98%	$ 2,321 *	—% **	34.89%	0.81%	4.36%
Plan members	—	—	—	—	—	0.9%
Contributions made	$ 38,204	$ 2,321	$ —	$ 7,919	$ 14	$ 18

* Actuarially determined amount not expressed as rate

** An actuarial valuation determined that no contribution was required for this OPEB plan.

D. Net OPEB Liability (Asset)

The net OPEB liability of the State and other participating employers in the State Employees Plan and the Board of Education Plan, which are multiple employer cost-sharing plans, has been apportioned based on the percentage share of total contributions made by each participating employer in fiscal year 2017. The State's proportion for the State Employees Plan for State employees was 89.2%.

Following is a summary of the net OPEB liability of the State and other employers participating in the State Employees Plan, the net OPEB liability of the State's share of the Board of Education Plan and the State's liability (asset) related to the four single employer defined benefit plans it sponsors, all measured as of June 30, 2017 (expressed in thousands):

Net OPEB Liability - Multiple Employer Cost-sharing OPEB Plans:

Total Net OPEB Liability - State Employees Plan		$ 519,444
Less portion attributable to other entities:		
Enterprise Fund - Rhode Island Lottery		$ (3,864)
Discretely Presented Component Units		
University of Rhode Island	$ 29,240	
Rhode Island College	10,135	
Community College of RI	7,463	
RI Division of Higher Education Assistance	375	
RI Commerce Corporation	68	
RI Airport Corporation	437	
		(47,718)
Related organization - Narragansett Bay Commission		(4,265)
State Employees Plan - State's Share of Net OPEB Liability - Governmental Activities		$ 463,597
Board of Education Plan - State's share of Net OPEB Liability - Governmental Activities		111
State's Share of Net OPEB Liability - Multiple Employer Cost-sharing Plans - Governmental Activities		$ 463,708
State Employees Plan - Rhode Island Lottery's Share of Net OPEB Liability - Business-type Activities		$ 3,864
Total State's share of Net OPEB Liability - Multiple Employer Cost-sharing Plans		$ 467,572

Net OPEB Liability (Asset) - Single Employer Plans:

Net OPEB Liability - Single Employer OPEB Plans	
Teachers	$ 3,055
State Police	44,886
Total Net OPEB Liability	$ 47,941
Net OPEB Liability - All Plans	$ 515,513
Net OPEB (Asset) - Single Employer OPEB Plans	
Judges	(2,378)
Legislators	(1,379)
Total Net OPEB (Asset)	$ (3,757)

Statement of Net Position

	Governmental Activities	Business-Type Activities	Total
Net OPEB Liability	$ 511,649	$ 3,864	$ 515,513
Net OPEB (Asset)	$ (3,757)	$ —	$ (3,757)

Further details regarding the State's total OPEB liability and net OPEB liability (asset) for the single employer trusteed OPEB plans (expressed in thousands) which was measured as of June 30, 2017 is presented below:

	Teachers	Judges	State Police	Legislators
Total OPEB liability	$ 12,832	$ 1,322	$ 82,423	$ 1,525
Plan fiduciary net position	9,777	3,700	37,537	2,904
Net OPEB liability (asset)	$ 3,055	$ (2,378)	$ 44,886	$ (1,379)
Plan fiduciary net position as a percentage of total OPEB liability (asset)	76.2%	279.9%	45.5%	190.4%

a. Actuarial assumptions used in determining total OPEB liability

The total OPEB liability was determined by an actuarial valuation performed as of June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement.

Summary of Actuarial Methods and Assumptions used in the June 30, 2017 Valuation						
	Plan					
	State Employees	**Teachers**	**Judges**	**State Police**	**Legislators**	**Board of Education**
Actuarial Cost Method	Individual Entry Age					
Actuarial Assumptions						
Investment Rate of Return	5.00%					
Projected Salary Increases	3.0% to 6.0%	N/A	3.0%	4.0% to 14.0%	3.0% to 6.0%	3.0% to 6.0%
Valuation Health Care Cost Trend Rate	9% in 2018, grading to 3.5% in 2031					
Mortality Rates	Healthy Male Teachers, Judges, Legislators, and Board of Education: RP-2014 Combined Healthy for males with White Collar adjustment, projected with the MP 2016 ultimate rates. Healthy Female Teachers, Judges, Legislators, and Board of Education: RP-2014 Combined Healthy for females with White Collar adjustment, projected with the MP 2016 ultimate rates. Healthy Male State Employees and Police: RP-2014 Combined Healthy for males with Blue Collar adjustment, projected with the MP 2016 ultimate rates. Healthy Female State Employees and Police: RP- 2014 Combined Healthy for females, projected with the MP 2016 ultimate rates.					
Excise Tax Under the Patient Protection and Affordable Care Act	The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2022. The excise tax is 40% of costs above a threshold. The actual actuarial assumptions used in the most recent valuations assume that the plans will be subject to the excise tax in 2022.					
Note: The actuarial assumptions do not include a separate general inflation rate assumption.						

The actuarial assumptions used in the June 30, 2017 valuation and the calculation of the total OPEB liability (asset) at June 30, 2017 were consistent with an actuarial experience review performed as of June 30, 2017.

The long-term expected rate of return best-estimate on OPEB plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of OPEB plan expense and inflation) for each major asset class, based on a collective summary of capital market expectation from 35 sources. The June 30, 2017 expected arithmetic returns over the long-term (20 years) by asset class are summarized in the following table:

Asset Class	Long-Term Target Asset Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	65%	5.58%
Fixed Income	35%	0.52%

These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall long-term expected rate of return best-estimate on an arithmetic basis.

b. Discount rate

The discount rate used to measure the total OPEB liability of the plans was 5%. The projection of cash flows used to determine the discount rate assumed that the contributions, if any, from the plan members will be made at the current contribution rate and that the contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

c. Sensitivity of the net OPEB liability (asset) to changes in the discount rate

The following table presents the net OPEB liability (asset) of the employers calculated using the discount rate of 5.0 percent, as well what the employers' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate (expressed in thousands).

Governmental Activities:

	1.00% Decrease (4.00%)	Current Discount Rate (5.0%)	1.00% Increase (6.00%)
State employees	$ 540,956	$ 463,597	$ 399,184
Teachers	$ 4,282	$ 3,055	$ 2,006
Judges	$ (2,313)	$ (2,378)	$ (2,438)
State Police	$ 51,772	$ 44,886	$ 38,661
Legislators	$ (1,270)	$ (1,379)	$ (1,478)
BOE	$ 136	$ 111	$ 90

Business-type Activities:

	1.00% Decrease (4.00%)	Current Discount Rate (5.0%)	1.00% Increase (6.00%)
Rhode Island Lottery:			
OPEB Plan - State Employees	$ 4,508	$ 3,864	$ 3,327

d. Sensitivity of the net OPEB liability (asset) to changes in the healthcare inflation rate

The following table presents the net OPEB liability (asset) of the employers calculated using the healthcare cost trend rate of 9.0 percent and gradually decreasing to an ultimate rate of 3.5%, as well what the employers' net OPEB liability (asset) would be if it were calculated using a trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate (expressed in thousands).

Governmental Activities:

	1.00% Decrease	Healthcare Cost Trend Rate	1.00% Increase
State employees	$ 390,149	$ 463,597	$ 554,874
Teachers	$ 2,059	$ 3,055	$ 4,196
Judges	$ (2,389)	$ (2,378)	$ (2,366)
State Police	$ 37,405	$ 44,886	$ 53,532
Legislators	$ (1,479)	$ (1,379)	$ (1,267)
BOE	$ 87	$ 111	$ 140

Business-type Activities:

	1.00% Decrease	Healthcare Cost Trend Rate	1.00% Increase
Rhode Island Lottery:			
OPEB Plan - State Employees	$ 3,251	$ 3,864	$ 4,624

E. Changes in the Net OPEB Liability (Asset)

Information on the State's net OPEB liability for single employer plans is as follows (expressed in thousands):

	Teachers	Judges	State Police	Legislators
Total OPEB Liability				
Service cost	$ —	$ 20	$ 3,836	$ 63
Interest	562	50	4,202	66
Differences between expected and actual experience	1,625	(306)	(174)	168
Changes of assumptions	217	503	(6,005)	(45)
Benefit payments, net of retiree contributions	(1,610)	138	(3,130)	(36)
Net change in Total OPEB Liability	794	405	(1,271)	216
Total OPEB Liability - beginning	12,038	917	83,694	1,309
Total OPEB Liability - ending	$ 12,832	$ 1,322	$ 82,423	$ 1,525
Plan Fiduciary Net Position				
Employer contributions	$ 2,321	$ —	$ 7,702	$ 27
Net investment income	864	334	3,491	283
Benefit payments	(1,610)	138	(3,130)	(36)
Administrative expenses	7	—	(1)	—
Other	103	26	163	29
Net change in Fiduciary Net Position	$ 1,685	$ 498	$ 8,225	$ 303
Plan Fiduciary Net Position - beginning	8,092	3,202	29,312	2,601
Plan Fiduciary Net Position - ending	$ 9,777	$ 3,700	$ 37,537	$ 2,904
Net OPEB Liability (Asset)	$ 3,055	$ (2,378)	$ 44,886	$ (1,379)

F. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

Cost-Sharing Multiple Employer OPEB Plans

For the fiscal year ended June 30, 2018 the State recognized OPEB expense of $34.8 million related to State employees who are covered by the OPEB cost-sharing plans administered by the System.

At June 30, 2018 the State reported deferred outflows of resources and deferred inflows of resources related to its participation in the System from the following sources (expressed in thousands):

Governmental Activities:

	State Employees	BOE	Totals
Deferred Outflows of Resources			
State contributions subsequent to the measurement date	$ 37,887	$ 18	$ 37,905
Changes of assumptions	27,819	10	27,829
Totals	$ 65,706	$ 28	$ 65,734
Deferred Inflows of Resources			
Differences between expected and actual experience	$ 24,172	$ 13	$ 24,185
Net difference between projected and actual investment earnings	5,681	2	5,683
Totals	$ 29,853	$ 15	$ 29,868

The $37.9 million reported as deferred outflows of resources related to OPEB resulting from State contributions to the plans subsequent to the measurement date will be recognized as a reduction in the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows (inflows) of resources related to OPEB will be recognized in the determination of OPEB expense as follows (expressed in thousands):

	State Employees	BOE
Year ended June 30:		
2019	$ (848)	$ (1)
2020	(848)	(1)
2021	(848)	(1)
2022	(848)	(1)
2023	573	(1)
Thereafter	785	—
	$ (2,034)	$ (5)

Business-type Activities:

Deferred Outflows of Resources		
Contributions subsequent to the measurement date	$	317
Changes of assumptions		232
Totals	$	549
Deferred Inflows of Resources		
Differences between expected and actual experience	$	201
Net difference between projected and actual investment earnings		47
Totals	$	248

The $317 thousand reported as deferred outflows of resources related to OPEB resulting from contributions to the plan subsequent to the measurement date will be recognized as a reduction in the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows (inflows) of resources related to OPEB will be recognized in the determination of OPEB expense as follows (expressed in thousands):

Year ended June 30:		
2019	$	(7)
2020		(7)
2021		(7)
2022		(7)
2023		5
Thereafter		7
	$	(16)

Other Single Employer OPEB Plans

For the fiscal year ended June 30, 2018 the table below provides information about OPEB expense recognized for each of the State's four single employer plans (expressed in thousands):

Plan		Annual OPEB Expense (Credit)
Teachers	$	1,781
Judges		(92)
State Police		5,044
Legislators		(43)
Total	$	6,690

At June 30, 2018 the State reported deferred outflows of resources and deferred inflows of resources related to its participation in the single employer plans from the following sources (expressed in thousands):

	Teachers	Judges	State Police	Legislators	Totals
Deferred Outflows of Resources					
Employer contributions subsequent to the measurement date	$ 2,321	$ —	$ 7,919	$ 14	$ 10,254
Differences between expected and actual experience	—	—	—	144	144
Change of Assumptions	—	343	—	—	343
Totals	$ 2,321	$ 343	$ 7,919	$ 158	$ 10,741
Deferred Inflows of Resources					
Differences between expected and actual experience	$ —	$ 209	$ 150	$ —	$ 359
Change of assumptions	—	—	5,162	39	5,201
Net difference between projected and actual investment earnings	351	136	1,526	122	2,135
Totals	$ 351	$ 345	$ 6,838	$ 161	$ 7,695

The amount of $10.3 million reported as deferred outflows of resources, related to OPEB resulting from State contributions to the single employer plans after the measurement date, will be recognized as a reduction in the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows/(inflows) of resources related to OPEB will be recognized in the determination of OPEB expense as follows (expressed in thousands):

	Teachers	Judges	State Police	Legislators
Year ended June 30:				
2019	$ (88)	$ 29	$ (1,249)	$ (13)
2020	(88)	29	(1,249)	(13)
2021	(88)	(26)	(1,249)	(13)
2022	(87)	(34)	(1,249)	(13)
2023	—	—	(867)	16
Thereafter	—	—	(975)	$ 19
	$ (351)	$ (2)	$ (6,838)	$ (17)

G. Component Unit Postemployment Benefit Plan

Rhode Island Public Transit Authority

The Rhode Island Public Transit Authority has a single employer defined benefit post-retirement health and life insurance program that covers eligible employees. The Authority provides lifetime health care benefits to substantially all retired employees and their spouses. The Authority also provides life insurance benefits to retired employees who purchase life insurance for at least one year prior to retirement. Benefits are provided through a group insurance policy that covers both active and Pre-65 retired employees. Post-65 retired employee healthcare coverage benefits are provided through contributions to healthcare reimbursement accounts. Benefit terms, changes in benefit terms, and financing requirements are established by the Authority and are subject to the collective bargaining process. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The plan does not issue a separate audit report.

At June 30, 2018 the plan's total OPEB liability totaled $72 million. The total OPEB liability was determined by an actuarial valuation as of July 1, 2017 rolled forward to June 30, 2018. For the fiscal year ended June 30, 2018 OPEB expense of $6 million was recorded related to the plan. Other information about the plan can be found in the audited financial statements of RIPTA which are available at www.ripta.com.

University of Rhode Island, Rhode Island College and the Community College

Certain employees of the University of Rhode Island, Rhode Island College and the Community College of Rhode Island participate in one of two OPEB plans: the State Employees' OPEB Cost-Sharing Plan and the Board of Education Cost-Sharing OPEB Plan (collectively referred to as the Plans). The Plans are cost-sharing multiple-employer defined benefit OPEB plans included within the Rhode Island State Employees' and Electing Teachers OPEB System. The plans generally provide healthcare coverage to pre-Medicare eligible retirees and health reimbursement account contributions or Medicare supplement coverage for members who are Medicare eligible. Members may purchase coverage for spouses and dependents. Dental and vision coverage may be purchased by these groups with no state subsidy.

At June 30, 2018 each institution's proportionate share of net OPEB liability related to participation in the plans was as follows (in thousands):

University of Rhode Island	$ 51,187
Rhode Island College	26,763
Community College of Rhode Island	21,149
Total	$ 99,099

The net OPEB liabilities in the table above were measured as of June 30, 2017, the measurement date, and the total OPEB liabilities used to calculate the net OPEB liabilities were determined for each plan by a separate actuarial valuation as of June 30, 2017. The proportion of net OPEB liability for each institution was based on its share of contributions to the Plans for fiscal year 2017 relative to the total contributions of all participating employers for that fiscal year.

For the fiscal year ended June 30, 2018 each institution recognized OPEB expense as follows (in thousands):

University of Rhode Island	$ 3,783
Rhode Island College	1,970
Community College of Rhode Island	1,556
Total	$ 7,309

Other information about the plans can be found in the audited financial statements for each institution as follows:

- University of Rhode Island - www.uri.edu
- Rhode Island College - www.ric.edu
- Community College of Rhode Island - www.ccri.edu

Other Component Units

Certain other component units have OPEB plans. For information regarding these plans, please refer to the component units' separately issued financial reports.

Note 16. Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Department of Administration, pursuant to Chapter 36-13 of the General Laws, administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. Plan distributions are normally available to employees without penalty at the later of age 59 or retirement and mandatory distributions must commence once the individual reaches age 70½. The plan also allows for distributions for qualifying events such as termination, death or "unforeseeable emergency."

Current Internal Revenue Service regulations require that amounts deferred under a Section 457 plan be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors. The plan assets also may be held in annuity contracts or custodial accounts, which are treated as trusts.

The State does not serve in a trustee capacity. Accordingly, the plan assets are not included in the State's financial statements.

Note 17. Risk Management

The State is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; employee injury; and natural disasters.

The State has entered into agreements with commercial insurance companies for comprehensive insurance coverage, subject to certain deductibles, on State property to protect the State against loss from fire and other risks. Furthermore, the State is required by the General Laws to provide insurance coverage on all motor vehicles owned by the State and operated by State employees. During fiscal year 2018, and the two preceding fiscal years, no settlements exceeded insured coverage limits.

The State also has a contract with an insurance carrier/administrator to provide health care benefits to active and certain retired employees. For coverage provided to active employees and retirees who are not eligible for Medicare, the State retains the full risk of loss. The State reimburses the administrator for the costs of all claims paid plus administrative fees.

The estimated liability for incurred but not reported (IBNR) claims at June 30, 2018 and June 30, 2017 was calculated based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

		Liability at July 1, 2017		Current Year Claims and IBNR Estimate		Claim Payments		Liability at June 30, 2018
Health Insurance								
Internal Service Fund								
Unpaid claims	$	18,305	$	233,960	$	235,004	$	17,261

		Liability at July 1, 2016		Current Year Claims and IBNR Estimate		Claim Payments		Liability at June 30, 2017
Health Insurance								
Internal Service Fund								
Unpaid claims	$	19,042	$	237,511	$	238,248	$	18,305

The State is self-insured for risks of loss related to torts. Tort claims are defended by the State's Attorney General and, when necessary, appropriations are provided to pay claims.

The State is self-insured for various risks of loss related to work-related injuries of State employees. The State maintains the Assessed Fringe Benefits Fund, an internal service fund that services, among other things, workers' compensation claims. Funding is provided through a fringe benefit rate applied to State payrolls on a pay-as-you-go basis.

The State has entered into contracts with managed care health plans to share in either the aggregate risk (loss) or gain (profit) incurred by the plans over the course of the contract year. Managed care expenditures represent a relatively large portion of the State’s Medical Assistance expenditures. The State's known estimated risk (loss) or gain share amounts related to these contracts have been included in the financial statements.

Note 18. Other Information

A. Elimination Entries

When the governmental fund statements and the internal service fund statements are combined into one column for governmental activity on the government-wide financial statements, interfund balances and activity should be eliminated. The following are the eliminations (expressed in thousands) that were made:

	Total Governmental Funds	Internal Service Funds	Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 1,803	$ 16,328	$ 18,131	$ (17,934)	$ 197
Loans to other funds	122,065	2,777	124,842	(124,842)	—
Total assets	$ 123,868	$ 19,105	$ 142,973	$ (142,776)	$ 197
Liabilities					
Due to other funds	$ 17,725	$ 209	$ 17,934	$ (17,934)	$ —
Loans from other funds	116,216	8,626	124,842	(124,842)	—
Total liabilities	$ 133,941	$ 8,835	$ 142,776	$ (142,776)	$ —
Program revenue					
General government	$ —	$ 411,213	$ 411,213	$ (411,213)	$ —
Public safety	—	12,082	12,082	(12,082)	—
Expenses					
General government	—	(411,319)	(411,319)	411,319	—
Public safety	—	(11,976)	(11,976)	11,976	—
Net revenue (expenses)	$ —	$ —	$ —	$ —	$ —
Transfers					
Transfers in	$ 593,815	$ 6,966	$ 600,781	$ (257,508)	$ 343,273
Transfers out	(257,510)	—	(257,510)	257,510	—
Net transfers	$ 336,305	$ 6,966	$ 343,271	$ 2	$ 343,273

	Total Business-type Activities		Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 1,481	$ —	$ 1,481	$ (1,678)	$ (197)
Total assets	$ 1,481	$ —	$ 1,481	$ (1,678)	$ (197)
Liabilities					
Due to other funds	$ 1,678	$ —	$ 1,678	$ (1,678)	$ —
Total liabilities	$ 1,678	$ —	$ 1,678	$ (1,678)	$ —
Transfers					
Transfers in	$ 21,733	$ —	$ 21,733	$ (21,733)	$ —
Transfers out	(365,006)	—	(365,006)	21,733	(343,273)
Net transfers	$ (343,273)	$ —	$ (343,273)	$ —	$ (343,273)

B. Related Party Transactions

The State has transferred custody, control and supervision of the Jamestown and the Sakonnet River Bridges and related land and improvements from the Department of Transportation to the R.I. Turnpike and Bridge Authority (RITBA). While maintenance responsibilities for the two bridges rest with RITBA, ownership and title remains with the State. Per statute, the State earmarks $0.035 per gallon of the gas tax to the Authority to fund the additional maintenance costs associated with these bridges. In addition, the Authority has been selected to provide administrative and operational functions for the RoadWorks truck tolling initiative commencing June 11, 2018.

The R.I. Industrial-Recreational Building Authority is authorized to insure contractual principal and interest payments required under first mortgages and first security agreements issued to private sector entities by financial institutions and the Rhode Island Industrial Facilities Corporation (RIIFC) on industrial or recreational projects in the State up to a maximum of $60,000,000 of outstanding principal balances under such insured mortgages and security agreements.

The State entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC) whereby the State has agreed to lease various assets to RIAC. The agreement requires RIAC to reimburse the State for principal and interest payments for certain airport-related General Obligation Bonds. Although the original airport-related General Obligation Bonds were defeased in June 2002, the terms of the lease agreement require RIAC to continue to remit payments to the State based upon the amortization schedule of original airport-related General Obligation Bonds through June 2023. As of June 30, 2018, the amount owed was approximately $180,000. The term of the agreement is 30 years beginning July 1, 1993, with annual rent of $1.00. In the event RIAC does not have sufficient funds to make the required lease payments when due, the amount is payable in the next succeeding fiscal year and remains an obligation of RIAC until paid in full. The State has no right to terminate the agreement as long as there are bonds and subordinate indebtedness outstanding.

The State has transferred land associated with the former Interstate 195 highway in Providence Rhode Island to the I-195 Redevelopment District Commission (I-195 RDC). The value of the land, which the commission intends to develop, was reported in the State's financial statements as a capital contribution at the historical cost of $343 per acre, for a total of $7,203. Improvements to the land are being funded by the State to complete redevelopment of the land for sale. In April 2013, the R.I. Commerce Corporation (RICC) issued conduit debt obligations on behalf of the I-195 RDC totaling $38.4 million. The State has appropriated $27 million to I-195 RDC to facilitate the sale of land within the District.

The voters of Rhode Island authorized the issuance of $30 million in general obligation debt for the construction of a new residence hall at Rhode Island College (RIC). Of this amount, $20 million will be repaid to the State. The residence hall was finished and in service by September 2007, at which time RIC began collecting revenues to pay for its share of the debt service. Debt service obligation is to be split two-thirds to RIC and one-third to the State for all payments after September 2007. RIC will repay the State for the debt service paid on its behalf on a straight-line basis, amortized over the remaining life of the bonds, which carry rates ranging from 3% to 5% and a life of nineteen years beginning in fiscal year 2009.

Under an agreement with Ascensus College Savings Recordkeeping Services, LLC, the program manager for CollegeBound Saver 529 operated by the R.I. Higher Education Savings Trust, the State receives an administrative fee assessed on all non-Rhode Island resident accounts invested in CollegeBound Saver 529. This administrative fee supports the administration of CollegeBound Saver 529 and the establishment and marketing of education activities and scholarship funds in the state of Rhode Island. These administrative fees provided $1.2 million to the State in support of the administration of CollegeBound Saver 529 and $6.7 million to the R.I. Division of Higher Education Assistance to support student financial assistance activities of the Division for the year ended June 30, 2018.

During fiscal 2016, the State created the School Building Authority Fund program to address high priority school building projects in communities with limited resources. Certain administrative duties related to the management and custody of monetary assets of the program were assigned to the Rhode Island Health and Educational Building Corporation (RIHEBC), including establishing a trust to hold related monies, creating and maintaining program accounting records, and the distribution and management of awards. Approved awards can be loans, grants or a combination of both. An appropriation of $10 million was made to RIHEBC during the fiscal year ended June 30, 2018, to fund the program. Funding is expected to continue through annual appropriations from the legislature, interest earned on loans, bond refinance interest savings and other payments received by RIHEBC pursuant to finance agreements with cities, towns and local education agencies.

The Municipal Road and Bridge Revolving Fund was created within the Rhode Island Infrastructure Bank (RIIB) to provide municipalities with low-cost financial assistance for road and bridge projects. In accordance with certain bond statutes, premium received from the issuance of bonds totaling $6.5M was transferred to RIIB for this fund during fiscal 2018. State statute requires RIIB to administer the financial components of the fund and requires the RI Department of Transportation to receive, review and rank municipal road and bridge projects submitted for funding consideration on an annual basis.

R. I. Commerce Corporation received various state appropriations totaling approximately $38 million during fiscal 2018 to fund various economic development initiatives on behalf of the State. The corporation reported approximately $70 million reserved for economic development initiatives at June 30, 2018 relating to State appropriations received in recent years.

The University of Rhode Island, Rhode Island College, Community College of Rhode Island, Central Falls School District, RI I-195 Redevelopment Commission, Rhode Island Commerce Corporation, and Rhode Island Public Transit Authority receive significant financial support from the State of Rhode Island. See Note 18D, Significant Transactions with Component Units for further details.

C. Budgeting, Budgetary Control, and Legal Compliance

Budget Preparation

An annual budget is adopted on a basis consistent with generally accepted accounting principles. The budget encompasses the General, Intermodal Surface Transportation and Temporary Disability Insurance Funds as well as selective portions of certain other funds. Preparation and submission of the budget is governed by the State Constitution and the Rhode Island General Laws. The budget, as enacted, contains a complete plan of proposed expenditures from all sources of funds (general, federal, restricted, and transfers in). Revenues upon which the budget plan is based are determined as part of the State's Revenue Estimating Conference. The Conference, held twice each year, results in a consensus estimate of revenues for the next fiscal year and an update of prior revenue estimates for the current fiscal year.

As required by the Constitution and the Rhode Island General Laws, annual appropriations are limited to 97.0 percent of estimated general revenues. The remaining 3.0 percent is contributed to the Budget Reserve Account until such account equals 5.0 percent of total general revenues and opening surplus. Excess contributions to the Budget Reserve Account are transferred to the Rhode Island Capital Plan Fund to be used for capital projects.

The annual budget is adopted on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

The State's budget documents may be accessed at the following website: http://www.omb.ri.gov/budget.

Budgetary Controls

The legal level of budgetary control, i.e., the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch), is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch.

Budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations, accounting system controls to limit expenditures in excess of authorized amounts, and budgetary monitoring controls.

D. Significant Transactions with Component Units

The significant transactions with the discretely presented component units are presented (expressed in thousands) below:

Significant transactions between primary government and component units

	Expense	Description
Governmental activities		
General		
University of Rhode Island	$ 78,351	Operating assistance
Rhode Island College	48,103	Operating assistance
Community College of Rhode Island	50,298	Operating assistance
Central Falls School District	47,881	Operating assistance
The Met	10,975	Operating assistance
I-195 District Commission	2,761	Operating assistance
R.I. Commerce Corporation	33,469	Operating and capital assistance
R.I. Division of Higher Education Assistance	6,647	Operating assistance
R.I. Public Transit Authority	3,371	Operating assistance
R.I. Health and Educational Building Corporation	60,758	School Building Authority Capital Fund/debt service
IST		
R.I. Public Transit Authority	51,001	Operating assistance
R.I. Turnpike and Bridge Authority	16,388	Infrastructure improvements
Bond Capital		
University of Rhode Island	42,152	Construction, improvement or purchase of assets
Rhode Island College	16,860	Construction, improvement or purchase of assets
R.I. Infrastructure Bank	8,324	Infrastructure improvements and bond proceeds
R. I. Capital Plan		
University of Rhode Island	9,987	Construction, improvement or purchase of assets
Rhode Island College	7,879	Construction, improvement or purchase of assets
Community College of Rhode Island	7,870	Construction, improvement or purchase of assets
Total Governmental Activities	$ 503,075	

In addition, following is a summary of transfers made by the component units (expressed in thousands) to the primary government during the fiscal year ended June 30, 2018:

Component Unit	**Amount Transferred to Primary Government**
R.I. Infrastructure Bank	$ 3,500
R.I. Health and Educational Building Corporation	6,000
Quonset Development Corporation	1,000
R.I. Housing and Mortgage Finance Corporation	1,000
Total	$ 11,500

E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2018:

- Central Utilities ($11 thousand)
- State Telecommunications ($387 thousand)
- Records Center ($150 thousand)
- Capitol Police ($17 thousand)
- Human Resources ($625 thousand)
- Assessed Fringe Benefits ($1.1 million)

The deficits will be eliminated through charges for services in fiscal year 2019.

F. Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources represent a consumption of net position by the State that is applicable to a future reporting period. Deferred inflows of resources represent an acquisition of net position by the State that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets, and deferred inflows of resources decrease net position, similar to liabilities.

The components of the deferred outflows of resources and deferred inflows of resources related to the primary government and its discretely presented component units as of June 30, 2018 are as follows (expressed in thousands):

	Governmental Activities	Business-Type Activities	Primary Government	Component Units
Deferred outflows of resources:				
Deferred loss on refunding of debt	$ 41,533	$ 7,757	$ 49,290	$ 14,317
Deferred pension costs - ERS	685,006	3,300	688,306	47,993
Deferred pension costs - single employer plans and other	52,386	—	52,386	25,386
Deferred OPEB costs - multiple employer plans	65,734	549	66,283	17,987
Deferred OPEB costs - single employer plans	10,741	—	10,741	—
Derivatives	—	—	—	4,184
Total deferred outflows of resources	$ 855,400	$ 11,606	$ 867,006	$ 109,867
Deferred inflows of resources:				
Deferred pension credit - ERS	$ 102,091	$ 686	$ 102,777	$ 13,612
Deferred pension credit - single employer plans and other	11,014	—	11,014	3,668
Deferred OPEB credit - multiple employer plans	29,868	249	30,117	11,534
Deferred OPEB credit - single employer plans	7,695	—	7,695	—
Deferred gain on refunding of debt	31,549	—	31,549	716
Total deferred inflows of resources	$ 182,217	$ 935	$ 183,152	$ 29,530

The components of the deferred inflows of resources related to the governmental funds as of June 30, 2018 are as follows (expressed in thousands):

	General Fund	IST Fund	Total Governmental Funds
Deferred inflows of resources:			
Taxes	$ 6,563	$ —	$ 6,563
Other General Revenue	5,731	—	5,731
Federal Revenue	—	9,004	9,004
Total deferred inflows of resources	$ 12,294	$ 9,004	$ 21,298

G. Restatements – Net Position

Restatements of beginning net position (expressed in thousands) are in the following table:

	Governmental Activities	Business-Type Activities	R.I. State Lottery	Discretely Presented Component Units
Net position previously reported at June 30, 2017	$ (448,902)	$ 310,832	$ (17,794)	$ 2,614,323
Restatement due to:				
1) Eliminate prior net OPEB obligation	8,486	—	—	72,127
2) Restatement due to the recording of net OPEB liability (asset) and deferred outflows of resources in accordance with GASB Statement No. 75	(475,894)	(3,601)	(3,601)	(179,315)
3) Restatement to correct error	—	—	—	49
4) Restatement for long-term receivable previously written off that is now deemed collectible	13,647	—	—	—
Net position at June 30, 2017 as restated	$ (902,663)	$ 307,231	$ (21,395)	$ 2,507,184

H. Pledged Revenue

The State's debt supported by pledged revenue is as follows (expressed in thousands):

Revenue Bonds-Tobacco Settlement Financing Corporation			
Revenue:			
Tobacco settlement revenue-cash basis (a)	$	45,916	
Investment income		540	
Total revenue		46,456	
General and administrative expenses		52	
Net revenue available for debt service	$	46,404	
Required debt service payments	$	36,287	
Covered ratio before turbo principal payments (b)			127.88%
Turbo redemptions - principal (c)		10,315	
Total annual debt service	$	46,602	
Covered ratio after turbo principal payments (d)			99.58%
Term of commitment - through June 2052			
Revenue Bonds-GARVEE (Federal Highway)			
Revenue - FHWA participation	$	23,555	
Less: operating expenses		—	
Net available revenue	$	23,555	
Debt service			
Principal	$	—	
Interest		23,560	
Total debt service	$	23,560	
Coverage (b)			99.98%
Term of commitment - through June 2021			
Revenue Bonds-GARVEE (Gas Tax)			
Revenue - 2 cents per gallon of the gasoline tax	$	8,976	
Less: operating expenses		—	
Net available revenue	$	8,976	
Debt service			
Principal (e)	$	—	
Interest		948	
Total debt service	$	948	
Coverage (b)			946.84%
Term of commitment - through June 2027			

(a) Included for fiscal 2018 are certain one-time revenue items totaling $7,522,982. A total of $4,632,611 was received under the Settlement Agreement, which was 72% of the 2017 disputed payment, and $2,890,371 was received from the settlement of the 2015 disputed payment. See Note 13 for additional information about the settlement.

(b) Coverage ratio equals net revenue available for debt service divided by required debt service payments.

(c) "Turbo" redemptions whereby the Corporation is required to apply collections that are in excess of current funding requirements to the early redemption of the bonds are discussed in Note 3 of the Notes to the Financial Statements of the Tobacco Settlement Financing Corporation.

(d) Coverage ratio equals net revenue available for debt service divided by total annual debt service.

(e) No principal payments were made in fiscal 2018 due to a refunding that occurred during the fiscal year.

Note 19. Subsequent Events

Primary Government

In November 2018 the voters of the State approved referenda to authorize the following general obligation bonds: (1) $250.0 million to provide state assistance for the construction of new public schools and renovation of existing public school buildings, (2) $70.0 million for higher education facilities, including $45.0 million for the University of Rhode Island Narragansett Bay Campus and $25.0 million for Rhode Island College School of Education and Human Development, and (3) $47.3 million for various environmental and recreational projects.

On November 1, 2018 the State of Rhode Island issued the following Lease Participation Certificates:

- URI Energy Conservation Project , 2018 Series A with a par amount of $10,195,000 for the purchase and rental of certain energy conservation equipment and systems and related improvements to real property to accommodate such energy conservation infrastructure at the University of Rhode Island.

- Eleanor Slater Hospital Project, 2018 Series B with a par amount of $20,100,000 for improvements to certain buildings situated in Cranston, Rhode Island.

Rhode Island Lottery

On August 28, 2018 Newport Grand ceased operations with the gaming license transferred to the Twin River-Tiverton Casino. The Twin River-Tiverton Casino officially opened on September 1, 2018.

On August 20, 2018, the RI Lottery agreed to terms with IGT, a wholly owned subsidiary of International Game Technology PLC and commercial partner William Hill U.S. to be the end-to-end sports betting service provider at the State's licensed video lottery and table games establishments, Twin River Casino and Twin River-Tiverton Casino. The initial term of the contract is for a period of five years from the date that the first sports wager is placed at either venue, and may be extended by mutual consent for two successive five year term. Sports betting operations began at Twin River Casino on November 26, 2018 and Twin River-Tiverton Casino on December 3, 2018.

Twin River Worldwide Holdings, Inc., the parent Company of UTGR, Inc (the owners of Twin River Casino and Twin River-Tiverton Casino), and Dover Downs Gaming & Entertainment, Inc. (NYSE:DDE) entered into a definitive merger agreement that was announced on July 22, 2018. The proposed transaction will transform Twin River into a publicly traded company with strategically placed gaming and entertainment holdings throughout the United States.

Discretely Presented Component Units

On July 1, 2018, the Rhode Island Division of Higher Education Assistance (the Division) assigned its entire Federal Family Education Loan Program portfolio to the U.S. Department of Education. The assignment of the portfolio requires the Division to return the fiduciary funds balance to the Federal government. The Division anticipates transferring approximately $12.2 million from its Federal Fund.

On November 29, 2018 the Rhode Island Infrastructure Bank issued Efficient Buildings Fund Revenue Bonds, Series 2018 A (Green Bonds) with a par amount of $18,310,000 for the purposes of refunding previous revenue bonds and funding a loan to a local government unit to finance, refinance or reimburse the cost of certain energy efficiency and renewable energy upgrades to public buildings and infrastructure. The following previously issued bonds were retired in conjunction with this bond issuance:

- Efficient Buildings Fund Revenue Bond Anticipation Notes, 2016 Series A with an original par amount of $17,345,000.

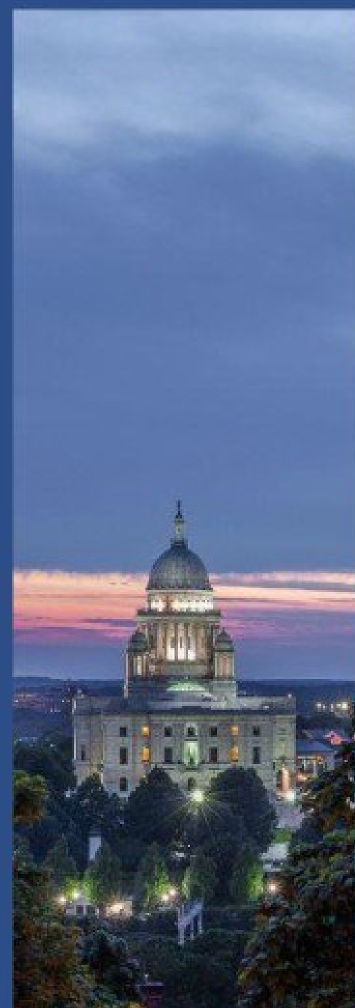
- Efficient Buildings Fund Revenue Bond Anticipation Notes, 2017 Series A with an original par amount of $6,000,000.

On December 12, 2018 the Rhode Island Health and Educational Building Corporation issued:

- Higher Education Facility Revenue Bonds, University of Rhode Island Educational and General Revenue Issue, Series 2018 A with a par amount of $17,500,000 for the repavement and reconstruction of major parking facilities, internal roadways, walkways and associated infrastructure at multiple University campuses.

- Higher Education Facility Revenue Bonds, University of Rhode Island Auxiliary Enterprise Revenue Issue, Series 2018 B with a par amount of $2,300,000 for fire safety and protection in auxiliary enterprise buildings.

Required Supplementary Information



State of Rhode Island

Fiscal Year Ended
June 30, 2018

State of Rhode Island and Providence Plantations

Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2018

(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
General Revenues:				
Personal Income Tax	$ 1,302,189	$ 1,357,200	$ 1,345,272	$ (11,928)
General Business Taxes:				
Business Corporations	159,125	139,500	127,674	(11,826)
Public Utilities Gross Earnings	97,833	100,000	109,594	9,594
Financial Institutions	20,135	21,700	29,177	7,477
Insurance Companies	134,641	132,000	130,262	(1,738)
Bank Deposits	2,500	2,700	1,639	(1,061)
Health Care Provider Assessment	44,149	44,400	44,100	(300)
Sales and Use Taxes:				
Sales and Use	1,059,447	1,051,500	1,057,205	5,705
Motor Vehicle	10,308	20,800	20,822	22
Cigarettes	143,121	143,100	146,878	3,778
Alcohol	20,800	20,300	19,929	(371)
Other Taxes:				
Inheritance and Gift	23,175	52,200	51,402	(798)
Racing and Athletics	1,100	1,100	1,081	(19)
Realty Transfer Tax	12,600	13,500	12,842	(658)
Total Taxes (1)	3,031,123	3,100,000	3,097,877	(2,123)
Departmental Revenue	393,224	396,500	397,579	1,079
Total Taxes and Departmental Revenue	3,424.347	3,496,500	3,495,456	(1.044)
Other Sources:				
Lottery	362,500	364,613	364,974	361
Unclaimed Property	10,900	10,900	10,902	2
Other Miscellaneous	36,978	38,450	37,054	(1,396)
Total Other Sources	410,378	413,963	412,930	(1,033)
Total General Revenues	3,834,725	3,910,463	3,908,386	(2,077)
Federal Revenues	2,838,528	2,937,883	2,744,485	(193,398)
Restricted Revenues	258,236	273,851	230,155	(43,696)
Other Revenues	81,534	69,419	71,419	2,000
Total Revenues (2)	7,013,023	7,191,616	6,954,445	(237,171)
Expenditures (4):				
General government	723,871	717,354	676,287	41,067
Human services	3,926,175	4,065,968	3,928,845	137,123
Education	1,638,623	1,645,481	1,617,075	28,406
Public safety	559,037	581,479	555,893	25,586
Natural resources	97,945	102,903	80,820	22,083
Total Expenditures (2)	6,945,651	7,113,185	6,858,920	$ 254,265
Transfer of Excess Budget Reserve to RI Capital Fund	—	—	113,208	
Transfer of residual balances to new internal service funds	—	—	6,966	
Transfer of scholarship revenue to RI Division of Higher Education	—	—	6,649	
Total Expenditures and Transfers	$ 6,945,651	$ 7,113,185	6,985,743	
Change in Fund Balance			(31,298)	
Fund balance - beginning			389,973	
Fund balance - ending			$ 358,675	

(Continued)

State of Rhode Island and Providence Plantations

Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2018

(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Expenditures by Source:				
General Revenues	$ 3,767,353	$ 3,832,034	$ 3,798,700	$ 33,334
Federal Funds	2,838,528	2,937,881	2,741,268	196,613
Restricted Receipts	258,236	273,851	255,358	18,493
Other Funds	81,534	69,419	63,594	5,825
	$ 6,945,651	$ 7,113,185	$ 6,858,920	$ 254,265

General Fund - Reconciliation of Budget Results to Changes in Fund Balance:

Budgeted Surplus:		
Total Revenue - Final Budget	$ 7,191,616	
Total Expenditures - Final Budget	7,113,185	
Final Budget - Projected Surplus (3)		$ 78,431
Final Budget and Actual - Results		
Total Revenues - Variance (Actual Revenue less than Budget)	$ (237,171)	
Total Expenditures - Variance (Actual Expenditures less than Budget)	254,265	
Surplus resulting from operations compared to final budget		$ 17,094
Total General Fund Surplus - Fiscal Year Ended June 30, 2018		$ 95,525
Transfer of residual balances to new internal service funds (5)		(6,966)
Transfer to RI Division of Higher Education Assistance (6)		(6,649)
Transfer of Excess Budget Reserve to RICAP Fund		(113,208)
Net Change in General Fund - Fund Balance		$ (31,298)
Fund Balance, Beginning		389,973
Fund Balance, Ending		$ 358,675

Notes:

Due to rounding, numbers presented may not add up precisely to the totals provided.

(1) Transfers from the Historic Tax Credit Special Revenue Fund reported as "Other Financing Sources" on the General Fund have been allocated to General Revenue Tax Categories on this schedule to align with the State's legally adopted budget format.

Historical Tax Credit Fund Transfers to the General Fund in Fiscal 2018 by Tax Type:

	General Fund Reported Revenue	Historic Tax Credits Applied Transfer from HTCF	Budgetary Comparison Total
Personal Income	$ 1,339,798	$ 5,475	$ 1,345,273
Business Corporations	127,170	504	127,674
Insurance Corporations	115,101	15,161	130,262

(2) Certain revenue and expenditure amounts classified as "Other Financing Sources (Uses)" have been reclassified within the budgetary comparison schedule to align with the State's legally adopted budgetary format.

(3) RI General Law section 35-3-20.1, titled "Limitation on state spending", mandates that expenditure appropriations shall not be greater than 97.0% of estimated general revenue for the fiscal year ending June 30, 2018.

(4) Debt service expenditures are included in the above respective categories:

General Government	$ 153,315
Education	37,497
Public Safety	500
	$ 191,312

(5) The State transitioned during fiscal 2018 to an internal service fund model for allocating certain costs for human resources administration, information technology, and property management to various functions and activities. The residual balances remaining at June 30, 2017 from the prior allocation methodology were transferred to the newly created internal service funds. These transfers were non-budgeted items.

(6) Amounts are provided for scholarships by the administrator of the Rhode Island Higher Education Savings Trust. For financial reporting purposes such amounts are recorded as restricted revenue and a transfer to the Rhode Island Division of Higher Education Assistance which administers the scholarship program. These amounts are non-budgeted items.

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

Reconciliation of Fund Balance - Financial Reporting Perspective to Budgetary Perspective

	Fund Balance Reported in the Financial Statements		Budgetary Perspective: Fund Balance Not Available for Appropriation in Fiscal 2019		Budgetary Perspective: Fund Balance Available for Appropriation in Fiscal 2019	
Nonspendable	$ 1,626		$ —		$ 1,626	*(d)*
Restricted	93,318		93,318		—	
Committed	3,210		3,210		—	
Assigned	42,385		11,120	*(a)*	31,265	*(b)*
Unassigned	218,136		198,502	*(c)*	19,634	*(d)*
Total Fund Balance	$ 358,675		$ 306,150		$ 52,525	

(a) Assigned fund balance not available for appropriation in fiscal 2019 includes general revenue appropriations carried forward by the Governor, Judiciary, and Legislature and intra-agency balances assigned for specific purposes.

(b) Assigned fund balance available for appropriation in fiscal 2019 represents fiscal 2018 ending surplus appropriated as a resource in the 2019 enacted budget.

(c) Budget Reserve and Cash Stabilization Account - for financial statement purposes, this account is classified as unassigned, yet, it is not considered available for recurring operational appropriations.

(d) Remaining fund balance available for appropriation.

(Concluded)

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Intermodal Surface Transportation Fund
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	$ 141,711	$ 141,711	$ 204,123	$ 62,412
Licenses, fines, sales, and services	74,433	141,971	24,433	(117,538)
Departmental restricted revenue	3,168	3,086	1,468	(1,618)
Federal grants	285,390	283,412	241,670	(41,742)
Other revenues	2,823	2,781	5,617	2,836
Total revenues	507,525	572,961	477,311	(95,650)
Revenues and other Financing Sources (unbudgeted):				
Miscellaneous revenue			3,124	
Total revenues			480,435	
Other Financing Sources:				
Transfers from RI Capital Plan and Bond Capital Funds (State FHWA Match)			39,363	
Proceeds from refunding			35,020	
Proceeds from capital lease			1,328	
Premium on issuance of GARVEE Bonds			5,665	
Total Other Financing Sources			81,376	
Total Revenues and Other Financing Sources			561,811	
Expenditures (budgeted):				
Central Management				
Federal Funds	6,756	8,062	4,622	3,440
Gasoline Tax	4,800	4,800	4,595	206
Total - Central Management	11,556	12,862	9,217	3,646
Management and Budget				
Gasoline Tax	2,942	5,637	1,124	4,513
Total - Management and Budget	2,942	5,637	1,124	4,513
Infrastructure-Engineering-GARVEE/Motor Fuel Tax Bonds				
Federal Funds	274,247	270,343	236,915	33,428
Federal Funds-Stimulus	4,387	5,008	226	4,782
Restricted Receipts	3,168	3,086	1,620	1,466
Gasoline Tax	76,171	75,660	76,572	(912)
Motor Fuel Tax Residuals	2,673	2,631	264	2,367
Total - Infrastructure - Engineering	360,646	356,728	315,597	41,131
Infrastructure - Maintenance				
Gasoline Tax	20,613	16,360	17,062	(702)
Non-Land Surplus Property	50	50	—	50
Outdoor Advertising	100	100	—	100
Rhode Island Highway Maintenance Account	74,433	141,971	69,942	72,029
Total - Infrastructure - Maintenance	95,196	158,481	87,004	71,477
Total Expenditures (budgeted)	$ 470,340	$ 533,708	$ 412,942	$ 120,767
Expenditures and Other Financing Uses (unbudgeted):				
Infrastructure Expenditures - State Match funded by RI Capital Plan and Bond Capital Funds			48,908	
Payments to escrow agent			51,637	
Infrastructure expenditures - GARVEE			29,984	
I-195 Redevelopment District project			10,151	
Capital lease offset			1,328	
Transfers to general fund - Gas Tax			45,979	
Total Expenditures and Other Financing Uses (unbudgeted)			187,987	
Total Expenditures and Other Financing Uses			600,929	
Net change in fund balance			(39,118)	
Fund balance, beginning			454,215	
Fund balance, ending			$ 415,097	

See Notes to Required Supplementary Information.

Budget and Actual

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund and certain special revenue funds. The annual budget is prepared on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding original or final budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

The budget to actual comparison for the General Fund on the preceding pages is summarized and does not present budget and actual amounts detailed at the legal level of budgetary control. The legal level of budgetary control, i.e., the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. Examples of line items under "Administration" are "Central Management" and "Purchasing." Management cannot reallocate any appropriations without special approval from the legislative branch. A separate schedule presenting such amounts at the detailed legal level of budgetary control is labeled "Annual Budgetary Comparison Schedules" and is available on the State Controller's website, http://controller.admin.ri.gov/index.php. General fund original and final budgeted revenues reflect annual amounts adopted during the State's revenue estimating conferences which meet biannually in November and May.

The comprehensive annual budget includes transportation function expenditures, the majority of which are reflected in the IST Fund for financial reporting purposes. The IST Fund major fund financial statements include transportation related activity of the various transportation funding sources including gas tax revenues, certain motor vehicle related fees and surcharges collected by the Department of Motor Vehicles, tolls, federal funds, GARVEE and Motor Fuel Bonds, and the proceeds of bonds issued by the I-195 Redevelopment District which were transferred to the IST fund to be utilized for infrastructure projects. The budget to actual comparison schedule for the IST fund on the preceding page is presented at the legal level of budgetary control consistent with the legally adopted budget. Not all the activity reported within the IST fund financial statements is budgeted. Unbudgeted activity has been separately identified in the budget to actual comparison schedule to facilitate reconciliation to the IST fund financial statements. By statute, the IST fund receives a percentage of certain motor vehicle related fees and surcharges collected by the Department of Motor Vehicles which are dedicated to the Rhode Island Highway Maintenance Account within the IST Fund. These revenues are not specifically budgeted through the revenue estimating process. Annual budgeted expenditures from the Highway Maintenance Account reflect amounts available in the account.

The original budget includes the amounts in the applicable appropriation act, general revenue appropriations carried forward by the Governor, and any unexpended balances designated by the General Assembly.

State of Rhode Island and Providence Plantations
Pension Information
Defined Benefit Multiple-Employer Cost-sharing Plan

The Employees' Retirement System (ERS) Plan is a multiple-employer cost-sharing defined benefit plan covering state employees and local teachers. Separate actuarial valuations are performed for state employees and teachers but not for individual employers within those groups. The net pension liability and other pension related amounts are apportioned based on proportionate employer contributions to the plan.

By statute, the State funds 40% of the actuarially determined employer contribution for teachers. This constitutes a special funding situation as described in GASB Statement No. 68. Consequently, the State has recognized its proportionate share of the net pension liability and other related pension amounts for this special funding situation in its financial statements.

The amounts included in these schedules for fiscal 2018 reflect a June 30, 2017 measurement date.

Additional information for the ERS plan is available in the separately issued audited financial statements of the Employees' Retirement System of Rhode Island.

The following schedules are presented for the ERS cost-sharing plan with a special funding situation:

- **ERS - Schedule of State's Proportionate Share of the Net Pension Liability - State Employees-Governmental Activities**
- **ERS - Schedule of State's Proportionate Share of the Net Pension Liability - State Employees-Business-Type Activities**
- **ERS - Schedule of State's Proportionate Share of the Net Pension Liability - Teachers**
- **ERS - Schedule of State Contributions - State Employees - Governmental Activities**
- **ERS - Schedule of State Contributions - State Employees - Business-Type Activities**
- **ERS - Schedule of State Contributions - Teachers**

These schedules are intended to show information for 10 years - additional years will be displayed as information becomes available. Note 14 to the financial statements contains detailed information concerning pension plans.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State's Proportionate Share
of the Net Pension Liability
Last Four Fiscal Years
(Expressed in Thousands)

Employees' Retirement System-State Employees-Governmental Activities

Year Ended	**June 30, 2018**	**June 30, 2017**	**June 30, 2016**	**June 30, 2015**
Measurement Date	**June 30, 2017**	**June 30, 2016**	**June 30, 2015**	**June 30, 2014**
State's proportion of the net pension liability	89.2%	88.9%	89.0%	89.0%
State's proportionate share of the net pension liability	$ 2,010,955	$ 1,887,351	$ 1,767,095	$ 1,585,647
State's covered payroll	$ 609,622	$ 597,074	$ 595,832	$ 581,589
State's proportionate share of the net pension liability as a percentage of its covered payroll	329.9%	316.1%	296.6%	272.6%
Plan fiduciary net position as a percentage of the total pension liability	51.8%	51.9%	55.0%	58.6%

The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State's Proportionate Share
of the Net Pension Liability
Last Four Fiscal Years
(Expressed in Thousands)

Employees' Retirement System-State Employees - Business-Type Activities

Rhode Island Lottery

Year Ended	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Lottery's proportion of the net pension liability	0.7%	0.8%	0.8%	0.7%
Lottery's proportionate share of the net pension liability	$ 16,869	$ 16,260	$ 15,074	$ 13,315
Lottery's covered payroll	$ 5,186	$ 5,156	$ 5,071	$ 4,891
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	325.3%	315.4%	297.3%	272.2%
Plan fiduciary net position as a percentage of the total pension liability	51.8%	51.9%	55.0%	58.6%

The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of the State's Proportionate Share
of the Net Pension Liability
Last Four Fiscal Years
(Expressed in Thousands)

Employees' Retirement System-State Share-Teachers (Special Funding Situation)

Year Ended	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Date	**June 30, 2017**	**June 30, 2016**	**June 30, 2015**	**June 30, 2014**
State's proportion of the net pension liability	43.1%	40.7%	40.6%	40.7%
State's proportionate share of the net pension liability	$ 1,357,577	$ 1,212,754	$ 1,117,395	$ 990,129
Plan fiduciary net position as a percentage of the total pension liability	54.0%	54.1%	57.6%	61.4%

The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Last Four Fiscal Years Ended June 30
(Expressed in Thousands)

Employees' Retirement System-State Employees-Governmental Activities

	2018	2017	2016	2015
Actuarially determined contribution	$ 156,083	$ 157,299	$ 144,696	$ 138,689
Contributions in relation to the actuarially determined contribution	$ 156,083	$ 157,299	$ 144,696	$ 138,689
Contribution deficiency (excess)	$ —	$ —	$ —	$ —
Covered payroll	$ 627,595	$ 620,754	$ 612,081	$ 594,466
Contributions as a percentage of covered payroll	24.9%	25.3%	23.6%	23.3%

The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Last Four Fiscal Years Ended June 30
(Expressed in Thousands)

Employees' Retirement System-State Employees - Business-Type Activities

Rhode Island Lottery

	2018	2017	2016	2015
Actuarially determined contribution	$ 1,321	$ 1,314	$ 1,219	$ 1,183
Contributions in relation to the actuarially determined contribution	$ 1,321	$ 1,314	$ 1,219	$ 1,183
Contribution deficiency (excess)	$ —	$ —	$ —	$ —
Covered payroll	$ 5,311	$ 5,186	$ 5,156	$ 5,071
Contributions as a percentage of covered payroll	24.9%	25.3%	23.6%	23.3%

The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Last Four Fiscal Years Ended June 30
(Expressed in Thousands)

Employees' Retirement System-State Share-Teachers (Special Funding Situation)

	2018	2017	2016	2015
Statutorily required contribution	$ 98,121	$ 96,542	$ 87,998	$ 84,944
Contributions in relation to the statutorily required contribution	98,121	96,542	87,998	84,944
Contribution deficiency (excess)	$ —	$ —	$ —	$ —

The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Pension Information
Single-Employer Defined Benefit Plans

Certain state employees are covered by the following single-employer plans, separate from the ERS plan, which covers most state employees.

- State Police Retirement Benefits Trust (SPRBT)
- Judicial Retirement Benefits Trust (JRBT)
- Rhode Island Judicial Retirement Fund Trust (RIJRFT)
- State Police Retirement Fund Trust (SPRFT)

These plans are administered within the Employees' Retirement System of Rhode Island. Separate actuarial valuations are performed for each plan. Additional information for the plans is available in the separately issued audited financial statements of the Employees' Retirement System of Rhode Island.

The amounts included in these schedules for fiscal 2018 reflect a June 30, 2017 measurement date.

The following schedules are presented for each single-employer plan:

- **Schedule of Changes in the Net Pension Liability and Related Ratios**
  - SPRBT
  - JRBT
  - RIJRFT
  - SPRFT

- **Schedule of State Contributions**
  - SPRBT
  - JRBT
  - RIJRFT
  - SPRFT

These schedules are intended to show information for 10 years - additional years will be displayed as information becomes available. Note 14 to the financial statements contains detailed information concerning pension plans.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Last Four Fiscal Years Ended June 30
(Expressed in Thousands)

State Police Retirement Benefits Trust

	2018	2017	2016	2015
Total Pension Liability				
Service cost	$ 4,498	$ 4,316	$ 4,198	$ 5,122
Interest	9,393	9,058	8,540	7,768
Benefit Changes	—	—	1,170	—
Differences between expected and actual experience	10,694	(4,139)	(3,522)	—
Changes of assumptions	9,274	—	—	(364)
Benefit payments	(5,142)	(4,585)	(2,497)	(1,767)
Net Change in Total Pension Liability	28,717	4,650	7,889	10,759
Total Pension Liability-Beginning	125,557	120,907	113,018	102,259
Total Pension Liability-Ending	$ 154,274	$ 125,557	$ 120,907	$ 113,018
Plan Fiduciary Net Position				
Employer contributions	$ 2,980	$ 4,005	$ 3,432	$ 3,331
Employee contributions	2,060	2,035	1,732	2,034
Net investment income	13,694	58	2,656	14,124
Benefit payments	(5,142)	(4,585)	(2,497)	(1,767)
Administrative expenses	(125)	(103)	(100)	(83)
Other	5	1	4	5
Net Change in Plan Fiduciary Net Position	$ 13,472	$ 1,411	$ 5,227	$ 17,644
Plan Fiduciary Net Position-Beginning	116,317	114,906	109,679	92,035
Plan Fiduciary Net Position-Ending	$ 129,789	$ 116,317	$ 114,906	$ 109,679
Net Pension Liability	$ 24,485	$ 9,240	$ 6,001	$ 3,339
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.1%	92.6%	95.0%	97.0%
Covered Payroll	$ 22,728	$ 20,985	$ 19,701	$ 23,051
Net Pension Liability as a Percentage of Covered Payroll	107.7%	44.0%	30.5%	14.5%

The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Net Pension Liability
and Related Ratios
Last Four Fiscal Years Ended June 30
(Expressed in Thousands)

Judicial Retirement Benefits Trust

	2018	2017	2016	2015
Total Pension Liability				
Service cost	$ 3,001	$ 2,859	$ 3,024	$ 3,002
Interest	5,031	4,744	4,540	4,134
Benefit Changes	—	—	253	—
Differences between expected and actual experience	(1,788)	(1,206)	(2,857)	—
Changes of assumptions	5,173	—	—	(672)
Benefit payments	(2,740)	(2,531)	(1,809)	(1,631)
Net Change in Total Pension Liability	8,677	3,866	3,151	4,833
Total Pension Liability-Beginning	66,951	63,085	59,934	55,101
Total Pension Liability-Ending	$ 75,628	$ 66,951	$ 63,085	$ 59,934
Plan Fiduciary Net Position				
Employer contributions	$ 2,057	$ 2,410	$ 2,709	$ 2,543
Employee contributions	1,118	1,053	1,121	1,093
Net investment income	7,107	29	1,368	7,221
Benefit payments	(2,740)	(2,531)	(1,809)	(1,631)
Administrative expenses	(65)	(53)	(51)	(43)
Other	—	—	—	—
Net Change in Plan Fiduciary Net Position	$ 7,477	$ 908	$ 3,338	$ 9,183
Plan Fiduciary Net Position-Beginning	60,418	59,510	56,172	46,989
Plan Fiduciary Net Position-Ending	$ 67,895	$ 60,418	$ 59,510	$ 56,172
Net Pension Liability	$ 7,733	$ 6,533	$ 3,575	$ 3,762
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.8%	90.2%	94.3%	93.7%
Covered Payroll	$ 9,532	$ 8,981	$ 9,570	$ 9,314
Net Pension Liability as a Percentage of Covered Payroll	81.1%	72.7%	37.4%	40.4%

The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Last Four Fiscal Years Ended June 30
(Expressed in Thousands)

Rhode Island Judicial Retirement Fund Trust

	2018	2017	2016	2015
Total Pension Liability				
Service cost	$ 350	$ 466	$ 416	$ 498
Interest	586	719	673	710
Benefit Changes	—	—	—	—
Differences between expected and actual experience	—	(1,060)	(642)	1,617
Changes of assumptions	(666)	1,865	859	(1,160)
Benefit payments	(399)	(231)	—	—
Net Change in Total Pension Liability	(129)	1,759	1,306	1,665
Total Pension Liability-Beginning	20,571	18,812	17,506	15,841
Total Pension Liability-Ending	$ 20,442	$ 20,571	$ 18,812	$ 17,506
Plan Fiduciary Net Position				
Employer contributions	$ 332	$ 140	$ —	$ —
Employee contributions	117	135	159	153
Net investment income	64	4	9	12
Benefit payments	(399)	(231)	—	—
Administrative expenses	(1)	—	—	—
Other	—	—	—	—
Net Change in Plan Fiduciary Net Position	$ 113	$ 48	$ 168	$ 165
Plan Fiduciary Net Position-Beginning	534	486	318	153
Plan Fiduciary Net Position-Ending	$ 647	$ 534	$ 486	$ 318
Net Pension Liability	$ 19,795	$ 20,037	$ 18,326	$ 17,188
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	3.2%	2.5%	2.6%	1.8%
Covered Payroll	$ 988	$ 963	$ 1,321	$ 1,276
Net Pension Liability as a Percentage of Covered Payroll	2003.3%	2189.2%	1387.4%	1346.8%

The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Net Pension Liability
and Related Ratios
Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

State Police Retirement Fund Trust

Total Pension Liability		
Service cost	$	—
Interest		12,589
Benefit Changes		—
Differences between expected and actual experience		—
Changes of assumptions		4,214
Benefit payments		(17,392)
Net Change in Total Pension Liability		(589)
Total Pension Liability-Beginning		176,546
Total Pension Liability-Ending	$	175,957
Plan Fiduciary Net Position		
Employer contributions	$	31,566
Employee contributions		—
Net investment income		1,839
Benefit payments		(17,392)
Administrative expenses		—
Other		—
Net Change in Plan Fiduciary Net Position	$	16,013
Plan Fiduciary Net Position-Beginning		—
Plan Fiduciary Net Position-Ending	$	16,013
Net Pension Liability	$	159,944
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		9.1%
Covered Payroll	$	—
Net Pension Liability as a Percentage of Covered Payroll		—%

There is no covered payroll because there are no active members of the plan.

The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is required prospectively until 10 years of data are presented. However, there is only one year of activity to report as the Trust began operations in fiscal 2018.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Last Four Fiscal Years Ended June 30
(Expressed in Thousands)

State Police Retirement Benefits Trust

	2018	2017	2016	2015
Actuarially determined contribution	$ 2,802	$ 2,980	$ 4,005	$ 3,432
Contributions in relation to the actuarially determined contribution	2,802	2,980	4,005	3,432
Contribution deficiency (excess)	$ —	$ —	$ —	$ —
Covered payroll	$ 22,930	$ 22,191	$ 23,258	$ 19,907
Contributions as a percentage of covered payroll	12.2%	13.4%	17.2%	17.2%

The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Last Four Fiscal Years Ended June 30
(Expressed in Thousands)

Judicial Retirement Benefits Trust

	2018	2017	2016	2015
Actuarially determined contribution	$ 2,064	$ 2,057	$ 2,410	$ 2,709
Contributions in relation to the actuarially determined contribution	2,064	2,057	2,410	2,709
Contribution deficiency (excess)	$ —	$ —	$ —	$ —
Covered payroll	$ 9,768	$ 9,532	$ 8,993	$ 9,566
Contributions as a percentage of covered payroll	21.1%	21.6%	26.8%	28.3%

The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplemental Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Last Four Fiscal Years Ended June 30
(Expressed in Thousands)

Rhode Island Judicial Retirement Fund Trust

	2018	2017	2016	2015
Actuarially determined contribution	$ 1,322	$ 1,241	$ 1,200	$ 1,623
Contributions in relation to the actuarially determined contribution	399	332	140	—
Contribution deficiency (excess)	$ 923	$ 909	$ 1,060	$ 1,623
Covered payroll	$ 973	$ 988	$ 964	$ 1,321
Contributions as a percentage of covered payroll	41.0%	33.6%	14.5%	—%

The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be required prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

State Police Retirement Fund Trust

Actuarially determined contribution	$	16,387
Contributions in relation to the actuarially determined contribution		16,387
Contribution deficiency (excess)	$	—

There is no covered payroll because there are no active members of the plan.

The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is required prospectively until 10 years of data are presented. However, there is only one year of activity to report as the Trust began operations in fiscal 2018.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Pension Information
Non-Contributory (pay-as-you-go) Defined Benefit Single-Employer Plan

Certain retired state employees are covered by the Judicial Non-Contributory Retirement Plan, a single-employer plan, which is separate from the plans previously described, and is not part of the Employees' Retirement System of Rhode Island.

The State funds this plan on a pay-as-you-go basis and no actuarially determined advance employer contribution is made nor are assets accumulated in a trust to pay future benefits. A separate actuarial valuation is performed to provide an accounting measure of the total pension liability for the plan.

A Schedule of Changes in Total Pension Liability is presented for this plan.The amounts included in this schedule for fiscal 2018 reflects a June 30, 2017 measurement date.The Schedule of Changes in Total Pension Liability is intended to show information for 10 years - additional years will be displayed as information becomes available. A Schedule of State Contributions is not presented as the plan operates on a pay-as-you-go basis and there is no covered payroll because there are no active members of the plan.

Note 14 to the financial statements contains detailed information concerning pension plans.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Total Pension Liability
Last Four Fiscal Years Ended June 30
(Expressed in Thousands)

Judicial Non-Contributory Retirement Plan

Total Pension Liability	2018	2017	2016	2015
Service cost	$ —	$ —	$ —	$ —
Interest	1,380	1,860	2,172	2,334
Benefit changes	—	—	—	—
Differences between expected and actual experience	182	—	328	—
Changes of assumptions	(2,291)	3,510	1,885	—
Benefit payments	(5,763)	(6,107)	(6,020)	(6,173)
Net Change in Total Pension Liability	(6,492)	(737)	(1,635)	(3,839)
Total Pension Liability-Beginning	51,281	52,018	53,653	57,492
Total Pension Liability-Ending	$ 44,789	$ 51,281	$ 52,018	$ 53,653

The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

Required Supplementary Information - Pensions

Significant Methods and Assumptions used in calculating the actuarially determined contributions

Actuarially determined contributions are calculated as of June 30, three years prior to the fiscal year in which the contribution rates are applicable. The actuarially determined contribution rates for fiscal 2018 were determined based on valuations performed as of June 30, 2015. Significant methods and assumptions are summarized for each plan in the table below:

	ERS		SPRBT	JRBT	RIJRFT	SPRFT
	State Employees	*Teachers*				
Actuarial Cost Method	Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used.					
Amortization Method	Level Percent of Payroll - Closed				Level Dollar	Level Dollar
Equivalent single remaining amortization period	20 years				16 years	15 years
Asset valuation method	5 year smoothed market					
Amortization period for gains and losses	20 years					
Actuarial Assumptions						
Investment Rate of Return	7.50%				4.00%	7.00%
Projected Salary Increases	3.50% to 6.50%	3.50% to 13.5%	3.75% to 11.75%	3.50%	3.00%	N/A
Mortality	Male Employees, MERS General and MERS P&F: 115% of RP-2000 Combined Healthy for Males with White Collar adjustments, projected with Scale AA from 2000. Female Employees, MERS General and MERS P&F: 95% of RP-2000 Combined Healthy for Females with White Collar adjustments, projected with Scale AA from 2000.					
	Male and female teachers: 97% and 92%, respectively of rates in a GRS table based on male and female teacher experience, projected with Scale AA from 2000.					
Inflation	**2.75%**					

Cost of Living Adjustments

A COLA of of 2% is assumed only every five years until the plans achieve an 80% collective funded status in accordance with the law. COLA provisions were modified with the enactment of the new RISA provisions in July 2015 - these provisions are effective in the actuarial valuations prepared for funding purposes beginning June 30, 2015.

Factors affecting trends for amounts related to the net pension liability

June 30, 2017 measurement date - As part of the 2017 Actuarial Experience Investigation Study for the six-year period ending June 30, 2016 as approved by the System Board on May 15, 2017, certain assumptions were modified and reflected in the determination of the net pension liability (asset) at the June 30, 2017 measurement date. The following summarizes the more significant changes in assumptions:

- Decreased the general inflation assumption from 2.75% to 2.50%;
- Decreased the nominal investment return assumption from 7.50% to 7.00%;
- Decreased the general wage growth assumption from 3.25% to 3.00%;
- Decreased salary increase assumptions; and
- Updated the post-retirement mortality tables to variants of the RP-2014 table. For the improvement scale, update to the ultimate rates of the MP-2016 projection scale.

For RIJRFT, the municipal bond index rate, based on fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" (3.56% at June 30, 2017) was applied to all periods of projected benefit payments to determine the total pension liability.

The June 30, 2017 measurement date information includes a pension credit of $96.5 million for the SPRFT plan which results from a change in assumption attributable to the establishment of an advance funded trust (effective July 1, 2016) that replaced the previous plan which was funded on a pay-as-you-go basis. As allowed by GASB standards, the discount rate for advance funded plans used in actuarial calculations of net pension liability is typically higher than the discount rate used for pay-as-you- go plans. Higher discount rates result in lower pension expense. The discount rate for the SPRFT plan increased from 2.85% to 7.00% with the establishment of the advance funded trust, which resulted in a large pension credit. GASB standards require the immediate recognition of this change in the discount rate assumption since the SPRFT plan is a closed plan that is comprised entirely of retired employees.

A pension credit of $664 thousand for the JNCRP plan results from an increase in the discount rate from 2.85% to 3.56%. GASB standards require the immediate recognition of this change in the discount rate assumption since the JNCRP plan is a closed plan that is comprised entirely of retired employees. Accordingly, the effect of this change in assumption has been recorded in fiscal 2018 and is reflected in the pension credit total of $664 thousand.

June 30, 2016 measurement date -- There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability (asset) as of the June 30, 2016 measurement date compared to the June 30, 2015 measurement date except for the changes in assumption for the RIJRFT plan due to use of the municipal bond index rate of 2.85%.

June 30, 2015 measurement date -- There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability (asset) as of the June 30, 2015 measurement date compared to the June 30, 2014 measurement date except for the changes in assumption for the RIJRFT plan due to use of the municipal bond index rate of 3.8% compared to 4.29% used in the June 30, 2014 valuation.

Benefit changes, which resulted from the settlement of the pension litigation and the subsequent enactment of those settlement provisions by the General Assembly, are reflected in the calculation of the net pension liability at the June 30, 2015 measurement date. Significant benefit changes are summarized below:

- Employees with more than 20 years of service at July 1, 2012 will increase their employee contribution rates to 11% for state employees and participate solely in the defined benefit plan effective July 1, 2015 - service credit accruals will increase from 1% to 2% per year.

- Members are eligible to retire upon the attainment of: age 65 with 30 years of service, 64 with 31 years of service, or 62 with 33 years of service. Members may retire earlier if their RI Retirement Security Act date is earlier or are eligible under a transition rule.

- The COLA formula was adjusted to: 50% of the COLA is calculated by taking the previous 5-year average investment return, less the discount rate (5 year return - 7.5%, with a maximum of 4%) and 50% is calculated using the previous year's CPI-U (maximum of 3%) for a total maximum COLA of 3.5%. The COLA is calculated on the first $25,855, effective 01/01/2016, and indexed as of that date as well.

- Other changes included providing interim cost of living increases at four rather than five year intervals, providing a one-time cost of living adjustment of 2% (applied to the first $25,000), two $500 stipends, and minor adjustments.

State of Rhode Island and Providence Plantations
OPEB Information
Multiple-Employer Cost-Sharing Plans

The Rhode Island State Employees' and Electing Teachers OPEB System administers two multiple-employer cost-sharing OPEB plans covering state employees; the State Employees plan and the Board of Education plan. Separate actuarial valuations are performed for each plan but not for individual employers within each plan. The net OPEB liability and other OPEB related amounts are apportioned based on proportionate employer contributions to the plan.

The amounts included in these schedules for fiscal 2018 reflect a June 30, 2017 measurement date.

Additional information for the these plans is available in the separately issued audited financial statements of Rhode Island State Employees' and Electing Teachers OPEB System and an additional report prepared to provide the GASB Statement No. 75 related information for participating employers.

The following schedules are presented for these multiple-employer cost-sharing plans:

- **Schedule of State's Proportionate Share of the Net OPEB Liability - State Employees Plan - Governmental Activities**
- **Schedule of State's Proportionate Share of the Net OPEB Liability - State Employees Plan - Business-Type Activities**
- **Schedule of State's Proportionate Share of the Net OPEB Liability - Board of Education Plan**
- **Schedule of State Contributions - State Employees Plan - Governmental Activities**
- **Schedule of State Contributions - State Employees Plan - Business-Type Activities**
- **Schedule of State Contributions - Board of Education Plan**

These schedules are intended to show information for 10 years - additional years will be displayed as information becomes available. Note 15 to the financial statements contains detailed information concerning OPEB plans.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State's Proportionate Share
of the Net OPEB Liability
Year Ended June 30, 2018
Measurement Date June 30, 2017
(Expressed in Thousands)

State Employees-Governmental Activities

State's proportion of the net OPEB liability	89.2%
State's proportionate share of the net OPEB liability	$ 463,597
State's covered payroll	$ 632,672
State's proportionate share of the net OPEB liability as a percentage of its covered payroll	73.3%
Plan fiduciary net position as a percentage of the total OPEB liability	22.4%

The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State's Proportionate Share
of the Net OPEB Liability
Year Ended June 30, 2018
Measurement Date June 30, 2017
(Expressed in Thousands)

State Employees-Business-Type Activities

Rhode Island Lottery

Lottery's proportion of the net OPEB liability		0.74%
Lottery's proportionate share of the net OPEB liability	$	3,864
Lottery's covered payroll	$	5,308
Lottery's proportionate share of the net OPEB liability as a percentage of its covered payroll		72.8%
Plan fiduciary net position as a percentage of the total OPEB liability		22.4%

The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State's Proportionate Share
of the Board of Education Plan Net OPEB Liability
Year Ended June 30, 2018
Measurement Date June 30, 2017
(Expressed in Thousands)

State's Share of Board of Education Plan

State's proportion of the net OPEB liability		0.2%
State's proportionate share of the net OPEB liability	$	111
State's covered payroll	$	264
State's proportionate share of the net OPEB liability as a percentage of its covered payroll		42.0%
Plan fiduciary net position as a percentage of the total OPEB liability		32.1%

The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

State Employees-Governmental Activities

Actuarially determined contribution	$ 37,887
Contributions in relation to the actuarially determined contribution	37,887
Contribution deficiency (excess)	$ —
Covered payroll	$ 633,562
Contributions as a percentage of covered payroll	6.0%

The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

State Employees-Business-Type Activities

Rhode Island Lottery

Actuarially determined contribution	$ 317
Contributions in relation to the actuarially determined contribution	317
Contribution deficiency (excess)	$ —
Covered payroll	$ 5,308
Contributions as a percentage of covered payroll	6.0%

The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions to Board of Education Plan
Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

State's Share of Board of Education Plan

Actuarially determined contribution	$ 18
Contributions in relation to the actuarially determined contribution	18
Contribution deficiency (excess)	$ —
Covered payroll	$ 411
Contributions as a percentage of covered payroll	4.4%

The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
OPEB Information
Single-Employer Plans

Certain state employees are covered by the following single-employer plans, which are separate from the State Employees and Board of Education multiple-employer cost-sharing plans, that cover most state employees.

- Teachers Plan
- Judges Plan
- State Police Plan
- Legislators Plan

These plans are administered within the Rhode Island State Employees' and Electing Teachers OPEB System. Separate actuarial valuations are performed for each plan. Additional information for the plans is available in the separately issued audited financial statements of the Rhode Island State Employees' and Electing Teachers OPEB System.

The amounts included in these schedules for fiscal 2018 reflect a June 30, 2017 measurement date.

The following schedules are presented for each single-employer plan:

- **Schedule of Changes in the Net OPEB Liability (Asset) and Related Ratios**
  - Teachers Plan
  - Judges Plan
  - State Police Plan
  - Legislators Plan

- **Schedule of State Contributions**
  - Teachers Plan
  - Judges Plan
  - State Police Plan
  - Legislators Plan

These schedules are intended to show information for 10 years - additional years will be displayed as information becomes available. Note 15 to the financial statements contains detailed information concerning OPEB plans.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Net OPEB Liability
and Related Ratios
For the Year Ended June 30, 2018
(Expressed in Thousands)

Teachers Plan

Total OPEB Liability	
Service cost	$ —
Interest	562
Benefit Changes	—
Differences between expected and actual experience	1,625
Changes of assumptions	217
Benefit payments	(1,610)
Net Change in Total OPEB Liability	794
Total OPEB Liability-Beginning	12,038
Total OPEB Liability-Ending	$ 12,832
Plan Fiduciary Net Position	
Employer contributions	$ 2,321
Net investment income	864
Benefit payments	(1,610)
Administrative expenses	7
Other	103
Net Change in Plan Fiduciary Net Position	$ 1,685
Plan Fiduciary Net Position-Beginning	8,092
Plan Fiduciary Net Position-Ending	$ 9,777
Net OPEB Liability	$ 3,055
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	76.2%
Covered Payroll	$ —
Net OPEB Liability as a Percentage of Covered Payroll	N/A

The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Net OPEB Asset and Related Ratios
For the Year Ended June 30, 2018
(Expressed in Thousands)

Judges Plan

Total OPEB Liability	
Service cost	$ 20
Interest	50
Benefit Changes	—
Differences between expected and actual experience	(306)
Changes of assumptions	503
Benefit payments	138
Net Change in Total OPEB Liability	405
Total OPEB Liability-Beginning	917
Total OPEB Liability-Ending	$ 1,322
Plan Fiduciary Net Position	
Employer contributions	$ —
Net investment income	334
Benefit payments	138
Administrative expenses	—
Other	26
Net Change in Plan Fiduciary Net Position	$ 498
Plan Fiduciary Net Position-Beginning	3,202
Plan Fiduciary Net Position-Ending	$ 3,700
Net OPEB Liability (Asset)	$ (2,378)
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	279.9 %
Covered Payroll	$ 10,746
Net OPEB Asset as a Percentage of Covered Payroll	(22.1)%

The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Net OPEB Liability
and Related Ratios
For the Year Ended June 30, 2018
(Expressed in Thousands)

State Police Plan

Total OPEB Liability	
Service cost	$ 3,836
Interest	4,202
Benefit Changes	—
Differences between expected and actual experience	(174)
Changes of assumptions	(6,005)
Benefit payments	(3,130)
Net Change in Total OPEB Liability	(1,271)
Total OPEB Liability-Beginning	83,694
Total OPEB Liability-Ending	$ 82,423
Plan Fiduciary Net Position	
Employer contributions	$ 7,702
Net investment income	3,491
Benefit payments	(3,130)
Administrative expenses	(1)
Other	163
Net Change in Plan Fiduciary Net Position	$ 8,225
Plan Fiduciary Net Position-Beginning	29,312
Plan Fiduciary Net Position-Ending	$ 37,537
Net OPEB Liability	$ 44,886
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	45.5%
Covered Payroll	$ 21,334
Net OPEB Liability as a Percentage of Covered Payroll	210.4%

The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Net OPEB Asset
and Related Ratios
For the Year Ended June 30, 2018
(Expressed in Thousands)

Legislators Plan

Total OPEB Liability	
Service cost	$ 63
Interest	66
Benefit Changes	—
Differences between expected and actual experience	168
Changes of assumptions	(45)
Benefit payments	(36)
Net Change in Total OPEB Liability	216
Total OPEB Liability-Beginning	1,309
Total OPEB Liability-Ending	$ 1,525
Plan Fiduciary Net Position	
Employer contributions	$ 27
Net investment income	283
Benefit payments	(36)
Administrative expenses	—
Other	29
Net Change in Plan Fiduciary Net Position	$ 303
Plan Fiduciary Net Position-Beginning	2,601
Plan Fiduciary Net Position-Ending	$ 2,904
Net OPEB Liability (Asset)	$ (1,379)
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	190.4 %
Covered Payroll	$ 1,719
Net OPEB Asset as a Percentage of Covered Payroll	(80.2)%

The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

Teachers Plan

Actuarially determined contribution	$ 2,321
Contributions in relation to the actuarially determined contribution	2,321
Contribution deficiency (excess)	$ —
Covered payroll	N/A
Contributions as a percentage of covered payroll	N/A

There is no covered payroll because there are no active members of the plan.

The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

Judges Plan

Actuarially determined contribution	$ —
Contributions in relation to the actuarially determined contribution	—
Contribution deficiency (excess)	$ —
Covered payroll	$ 10,746
Contributions as a percentage of covered payroll	—%

An actuarial valuation determined that no contribution was required for this OPEB plan.

The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

State Police Plan

Actuarially determined contribution	$ 7,919
Contributions in relation to the actuarially determined contribution	7,919
Contribution deficiency (excess)	$ —
Covered payroll	$ 22,698
Contributions as a percentage of covered payroll	34.9%

The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

Legislators Plan

Actuarially determined contribution	$ 14
Contributions in relation to the actuarially determined contribution	14
Contribution deficiency (excess)	$ —
Covered payroll	$ 1,728
Contributions as a percentage of covered payroll	0.8%

The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

Required Supplementary Information - OPEB

Significant Methods and Assumptions used in calculating the actuarially determined contributions

The OPEB Board's current policy is that the contribution rates determined by a given actuarial valuation become effective two years after the valuation date. The actuarially determined contribution rates for fiscal 2018 were determined based on valuations performed as of June 30, 2015. Significant methods and assumptions are summarized for each plan in the table below:

	State Employees	Teachers	Judges	State Police	Legislators	Board of Education
Actuarial Cost Method	Entry Age Normal					
Amortization Method	Level Percent of Pay	Level Dollar	Level Percent of Pay	Level Percent of Pay	Level Percent of Pay	Level Percent of Pay
Remaining amortization period	21 Years Closed	Determined by Statutory Contribution	30 Years Open	21 Years Closed	30 Years Open	21 Years Closed
Asset valuation method	4 Year smoothed market; 20% corridor					
Actuarial Assumptions						
Investment Rate of Return	5%, net of OPEB plan expenses, including inflation					
Projected Salary Increases	3.50% to 6.50%	N/A	3.50%	3.75% to 11.75%	3.50% to 6.50%	3.50% to 6.50%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.					
Mortality	**Post-Retirement Mortality** Fully Generational Mortality Healthy Males (with the exception of teachers): 115% of RP-2000 Combined Health for Males with white-collar adjustments, projected with Scale AA from 2000. Healthy Females (with the exception of teachers): 95% of RP-2000 Combined Health for Females with white-collar adjustments, projected with Scale AA from 2000. Healthy Male Teachers: 97% of rates in a GRS table based on male teacher experience, projected with Scale AA from 2000. Healthy Female Teachers: 92% of rates in a GRS table based on female teacher experience, projected with Scale AA from 2000. **Disabled Mortality** Disabled Males: 60% of the PBGC Table Va for disabled males eligible for Social Security disability benefits. Disabled Females: 60% of the PBGC Table Va for disabled females eligible for Social Security disability benefits. **Pre-Retirement Mortality** The mortality tables used to project the pre-termination mortality experience of plan members are the RP-2000 Combined tables with white-collar adjustments for males and females as the base table, and then to apply a 75% multiplier for state employees and a 50% multiplier for teachers.					
Health Care Trend Rates	Based on the Getzen Model, with trend starting at 9.00% and gradually decreasing to an ultimate trend of 3.5%.					
Aging Factors	The tables used in developing the retiree only premium are based on a recent Society of Actuaries study of health costs.					
Inflation	Not explicitly used, consistent with 2.75% assumption.					
Expenses	Investment expenses are net of the investment returns. Administrative expenses are also net of the investment returns.					

Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards

Table of Contents

Note: See page A-1 for *Independent Auditor's Report on Basic Financial Statements and Supplemental Schedule of Expenditures of Federal Awards*

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2018

Federal Grantor / Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture						
Agricultural Research Basic and Applied Research	10.001				$ (89)	
Plant and Animal Disease, Pest Control, and Animal Care	10.025				177,458	
Avian Influenza Indemnity Program	10.029				5	
Federal-State Marketing Improvement Program	10.156				(10)	
Inspection Grading and Standardization	10.162				5,665	
Market Protection and Promotion	10.163				4,427	
Specialty Crop Block Grant Program - Farm Bill	10.170				247,445	$ 115,310
Organic Certification Cost Share Programs	10.171				212	
Very Low to Moderate Income Housing Loans (See Note 2)	10.410				80,808	
SNAP Cluster:						
Supplemental Nutrition Assistance Program	10.551			$ 260,367,572		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561			15,742,727	276,110,299	1,469,300
Child Nutrition Cluster:						
School Breakfast Program	10.553			10,229,343		9,401,419
National School Lunch Program (See Note 3)	10.555			35,713,767		28,906,705
Special Milk Program for Children	10.556			38,110		38,090
Summer Food Service Program for Children (See Note 3)	10.559			1,539,984	47,521,204	1,406,179
WIC Special Supplemental Nutrition Program for Women, Infants and Children (See Note 4)	10.557				21,844,233	4,026,953
Child and Adult Care Food Program	10.558				9,579,109	9,478,441
State Administrative Expenses for Child Nutrition	10.560				1,057,074	
Food Distribution Cluster:						
Commodity Supplemental Food Program	10.565			127,175		125,591
Emergency Food Assistance Program (Administrative Costs)	10.568			227,994		195,081
Emergency Food Assistance Program (Food Commodities) (See Note 3)	10.569			1,250,298	1,605,467	
WIC Farmers' Market Nutrition Program (FMNP)	10.572				117,170	105,147
Team Nutrition Grants	10.574				1,229	
Senior Farmers Market Nutrition Program	10.576				27,506	
Child Nutrition Discretionary Grants Limited Availability	10.579				40,555	40,555
Fresh Fruit and Vegetable Program	10.582				2,390,382	2,293,975
Cooperative Forestry Assistance	10.664				356,690	83,848
Forest Legacy Program	10.676				16,422	
Forest Health Protection	10.680				646	
Total U.S. Department of Agriculture					$ 361,183,907	$ 57,686,594
U.S. Department of Commerce						
Economic Development Cluster:						
Economic Adjustment Assistance (See Note 2)	11.307				$ 9,655,045	
Interjurisdictional Fisheries Act of 1986	11.407				85,497	

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2018

Federal Grantor / Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Coastal Zone Management Administration Awards	11.419				1,502,989	$ 17,455
Coastal Zone Management Estuarine Research Reserves	11.420				606,390	
Marine Fisheries Initiative	11.433				536,718	
Regional Fishery Management Councils	11.441				20	
Unallied Management Projects	11.454				(13)	
Unallied Science Program	11.472				(2,104)	
Office for Coastal Management	11.473				29,686	
Atlantic Coastal Fisheries Cooperative Management Act	11.474				287,791	
State and Local Implementation Grant Program	11.549				171,008	
Total U.S. Department of Commerce					$ 12,873,027	$ 17,455
U.S. Department of Defense						
Procurement Technical Assistance for Business Firms	12.002				$ 357,506	
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113				577,262	
EASE 2.0	12.219				22,295	
National Guard Military Operations and Maintenance (O&M) Projects	12.401				21,274,231	$ 453,551
Economic Adjustment Assistance for State Governments	12.617				1,107,063	358,261
Total U.S. Department of Defense					$ 23,338,357	$ 811,812
U.S. Department of Housing and Urban Development						
Mortgage Insurance - Homes (See Note 2)	14.117				$ 324,421,331	
Qualified Participating Entities (QPE) Risk Sharing (See Note 2)	14.189				229,751,427	
Section 8 Project-Based Cluster:						
Section 8 Housing Assistance Payments Program	14.195			$ 170,650,588		
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856			514,420	171,165,008	
CDBG - Entitlement Grants Cluster:						
Community Development Block Grants/Entitlement Grants	14.218				(14,785)	
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (See Note 2)	14.228				11,681,645	$ 2,603,624
Emergency Solutions Grant Program	14.231				747,002	660,916
Home Investment Partnerships Program (See Note 2)	14.239				23,711,663	
Housing Opportunities for Persons with AIDS	14.241				602,885	
CDBG - Disaster Recovery Grants - Pub. L. No. 113-2 Cluster:						
Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR)	14.269				3,852,467	3,068,787
Continuum of Care Program	14.267				3,470,695	
Fair Housing Assistance Program - State and Local	14.401				252,850	
Housing Voucher Cluster:						
Section 8 Housing Choice Vouchers	14.871				17,540,543	

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2018

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Family Self-Sufficiency Program	14.896				225,358	
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900				697,870	
Total U.S. Department of Housing and Urban Development					$ 788,105,959	$ 6,333,327
U.S. Department of the Interior						
Hurricane Sandy Disaster Relief – Coastal Resiliency Grants	15.153				$ 689,949	$ 335,312
Fish and Wildlife Cluster:						
Sport Fish Restoration	15.605			$ 4,559,169		
Wildlife Restoration and Basic Hunter Education	15.611			3,851,933	8,411,102	
Fish and Wildlife Management Assistance	15.608				31,867	3,164
Cooperative Endangered Species Conservation Fund	15.615				67,220	
Clean Vessel Act	15.616				58,088	51,290
Sportfishing and Boating Safety Act	15.622				139,911	
Coastal	15.630				4,993	
State Wildlife Grants	15.634				580,436	
Endangered Species Conservation – Recovery Implementation Funds	15.657				17,858	
Historic Preservation Fund Grants-In-Aid	15.904				587,523	86,612
Outdoor Recreation - Acquisition, Development and Planning	15.916				818,022	
Emergency Supplemental Historic Preservation Fund	15.957				206,972	
Total U.S. Department of the Interior					$ 11,613,941	$ 476,378
U.S. Department of Justice						
Sexual Assault Services Formula Program	16.017				$ 315,239	$ 298,686
Juvenile Accountability Block Grants	16.523				264	
Juvenile Justice and Delinquency Prevention	16.540				378,312	133,138
Missing Children's Assistance	16.543				221,524	
National Criminal History Improvement Program (NCHIP)	16.554				248,616	
National Institute of Justice W.E.B. DuBois Fellowship Program	16.566				1,073,686	
Crime Victim Assistance	16.575				7,132,661	5,922,829
Crime Victim Compensation	16.576				630,684	
Edward Byrne Memorial Formula Grant Program	16.579				29,028	
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580				(20)	
Crime Victim Assistance/Discretionary Grants	16.582				47,214	47,190
Drug Court Discretionary Grant Program	16.585				126,267	
Violence Against Women Formula Grants	16.588				790,567	484,090
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590				325,452	196,697
Residential Substance Abuse Treatment for State Prisoners	16.593				60,633	
Project Safe Neighborhoods	16.609				128	
Public Safety Partnership and Community Policing Grants	16.710				13,560	

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2018

Federal Grantor / Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Juvenile Mentoring Program	16.726				33,375	
PREA Program: Strategic Support for PREA Implementation	16.735				6,911	
Edward Byrne Memorial Justice Assistance Grant Program	16.738				525,664	275,707
DNA Backlog Reduction Program	16.741				228,965	
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742				74,594	
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745				(26)	
Support for Adam Walsh Act Implementation Grant Program	16.750				49,654	
Harold Rogers Prescription Drug Monitoring Program	16.754				343,184	
Second Chance Act Reentry Initiative	16.812				12,750	
John R. Justice Prosecutors and Defenders Incentive Act	16.816				26,867	26,854
Equitable Sharing Program	16.922				20,566,142	
Total U.S. Department of Justice					$ 33,261,895	$ 7,385,191
U.S. Department of Labor						
Labor Force Statistics	17.002				$ 727,849	
Compensation and Working Conditions	17.005				14,940	
Employment Service Cluster:						
Employment Service/Wagner-Peyser Funded Activities	17.207			$ 3,371,622		
Disabled Veterans' Outreach Program (DVOP)	17.801			351,572		
Local Veterans' Employment Representative Program	17.804			313,927	4,037,121	
Unemployment Insurance (See Note 5)	17.225				160,246,913	
Senior Community Service Employment Program	17.235				158,212	$ 34,218
Trade Adjustment Assistance	17.245				1,121,685	67,752
WIOA Cluster:						
WIOA Adult Program	17.258			2,702,836		828,495
WIOA Youth Activities	17.259			3,902,850		774,044
WIOA Dislocated Worker Formula Grants	17.278			3,670,957	10,276,643	680,879
WIOA Pilots, Demonstrations, and Research Projects	17.261				696,155	
Incentive Grants - WIA Section 503	17.267				87,093	
H-1B Job Training Grants	17.268				3,898,412	
Reentry Employment Opportunities	17.270				85,569	
WIOA National Dislocated Worker Grants/WIA National Emergency Grants	17.277				2,590,537	451,443
WIOA Dislocated Worker National Reserve Technical Assistance and Training	17.281				(2)	
Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282				47,317	
Workforce Innovation Fund	17.283				(23)	
Apprenticeship USA Grants	17.285				142,021	
Consultation Agreements	17.504				513,627	
Other Department of Labor Awards	17.U01	10.073.1750104			46,994	
Total U.S. Department of Labor					$ 184,691,063	$ 2,836,831

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2018

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
U.S. Department of Transportation						
Airport Improvement Program	20.106				$ 13,822,967	
Highway Research and Development Program	20.200				771,389	
Highway Planning and Construction Cluster:						
Highway Planning and Construction	20.205			$ 223,010,773		$ 928,899
Recreational Trails Program	20.219			2,815,236	225,826,009	27,309
Highway Training and Education	20.215				21,480	14,093
Motor Carrier Safety Assistance	20.218				960,734	
Performance and Registration Information Systems Management	20.231				15,408	
Commercial Driver's License Program Implementation Grant	20.232				233,350	
Motor Carrier Safety Assistance High Priority Activities Grants and Cooperative Agreements	20.237				(243)	
High-Speed Rail Corridors and Intercity Passenger Rail Service - Capital Assistance Grants	20.319				225,939	
Federal Transit Cluster:						
Federal Transit Capital Investment Grants	20.500			5,828,085		2,049,866
Federal Transit Formula Grants	20.507			29,556,480		
Bus and Bus Facilities Formula Program	20.526			85,512	35,470,077	
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505				641,289	
Formula Grants for Rural Areas	20.509				408,843	
Transit Services Programs Cluster:						
New Freedom Program	20.521				78,475	
Public Transportation Emergency Relief Program	20.527				2,433,342	
Highway Safety Cluster:						
State and Community Highway Safety	20.600			1,990,057		1,149,149
Incentive Grant Program to Prohibit Racial Profiling	20.611			171,276		94,587
Incentive Grant Program to Increase Motorcyclist Safety	20.612			2,865		
National Priority Safety Programs	20.616			1,560,469	3,724,667	1,003,798
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608				1,792,032	334,265
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements	20.614				31,064	
Pipeline Safety Program State Base Grants	20.700				165,815	
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703				27,719	11,985
Payments for Small Community Air Service Development	20.930				2,223	
National Infrastructure Investments	20.933				1,724,444	
Total U.S. Department of Transportation					$ 288,377,023	$ 5,613,951
Department of the Treasury						
Equitable Sharing	21.016				$ 28	
Total Department of the Treasury					$ 28	$ -

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2018

Federal Grantor / Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Equal Employment Opportunity Commission						
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002				$ 156,773	
Total Equal Employment Opportunity Commission					$ 156,773	$ -
General Services Administration						
Donation of Federal Surplus Personal Property (See Note 3)	39.003				$ 5,207,964	$ 5,207,964
Total General Services Administration					$ 5,207,964	$ 5,207,964
National Foundation on the Arts and the Humanities						
Promotion of the Arts Partnership Agreements	45.025				$ 671,367	$ 390,309
Grants to States	45.310				1,072,798	
National Leadership Grants	45.312				(802)	
Total National Foundation on the Arts and the Humanities					$ 1,743,363	$ 390,309
U.S. Department of Veterans Affairs						
Grants to States for Construction of State Home Facilities	64.005				$ 10,985,224	
Veterans State Nursing Home Care	64.015				10,702,511	
All-Volunteer Force Educational Assistance	64.124				11,014	
Veterans Cemetery Grants Program	64.203				(8)	
Total U.S. Department of Veterans Affairs					$ 21,698,741	$ -
Environmental Protection Agency						
State Indoor Radon Grants	66.032				$ 95,584	
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034				873,249	
State Clean Diesel Grant Program	66.040				176,752	$ 176,664
Healthy Communities Grant Program	66.110				175,466	
Congressionally Mandated Projects	66.202				(25)	
State Public Water System Supervision	66.432				469,138	
Water Quality Management Planning	66.454				58,031	
Clean Water State Revolving Fund Cluster:						
Capitalization Grants for Clean Water State Revolving Funds	66.458				11,572,840	11,572,840
Drinking Water State Revolving Fund Cluster:						
Capitalization Grants for Drinking Water State Revolving Funds	66.468				13,879,678	11,460,526
Beach Monitoring and Notification Program Implementation Grants	66.472				187,480	
Performance Partnership Grants	66.605				3,664,638	254,676
Surveys, Studies, Investigations and Special Purpose Grants	66.606				(1,815)	
Environmental Information Exchange Network Grant Program and Related Assistance	66.608				2	
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701				176,319	

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2018

Federal Grantor / Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707				164,912	
Pollution Prevention Grants Program	66.708				55,878	
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802				222,317	
Underground Storage Tank Prevention, Detection and Compliance Program	66.804				123,460	
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805				461,896	
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809				96,517	
State and Tribal Response Program Grants	66.817				818,859	
Brownfields Assessment and Cleanup Cooperative Agreements	66.818				200,541	
Total Environmental Protection Agency					$ 33,471,717	$ 23,464,706
U.S. Department of Energy						
ARRA - State Energy Program	81.041				$ (1,258,035)	
State Energy Program					293,277	
Weatherization Assistance for Low-Income Persons	81.042				426,269	$ 373,913
University Reactor Infrastructure and Education Support	81.114				21,548	
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117				4,484	
State Energy Program Special Projects	81.119				228,866	183,508
Nuclear Energy Research, Development and Demonstration	81.121				7,165	
State Heating Oil and Propane Program	81.138				17,645	
Total U.S. Department of Energy					$ (258,781)	$ 557,421
U.S. Department of Education						
Adult Education - Basic Grants to States	84.002				$ 2,121,612	$ 1,769,183
Student Financial Assistance Cluster: (See Note 6)						
Federal Supplemental Educational Opportunity Grants	84.007			$ 2,108,003		
Federal Work-Study Program	84.033			2,117,100		
Federal Perkins Loan Program - Federal Capital Contributions (See Note 2)	84.038			14,357,752		
Federal Pell Grant Program	84.063			56,006,836		
Federal Direct Student Loans (See Note 2)	84.268			135,178,362		
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379			4,000	209,772,053	
Title I Grants to Local Educational Agencies	84.010				47,743,635	44,299,510
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013				361,776	
Special Education (IDEA) Cluster:						
Special Education Grants to States	84.027			41,958,747		35,832,187
Special Education Preschool Grants	84.173			1,580,451	43,539,198	1,086,870

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2018

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Federal Family Education Loans (Guarantee Agency) (See Note 2)	84.032				645,817,408	
TRIO Cluster:						
TRIO Student Support Services	84.042			529,798		
TRIO Talent Search	84.044			479,555		
TRIO Upward Bound	84.047			726,904		
TRIO Educational Opportunity Centers	84.066			710,215		
TRIO McNair Post-Baccalaureate Achievement	84.217			107,736	2,554,208	
Career and Technical Education - Basic Grants to States	84.048				5,446,764	3,949,759
Rehabilitation Services Vocational Rehabilitation Grants to States	84.126				10,979,860	
Rehabilitation Services Independent Living Services for Older Individuals Who Are Blind	84.177				435,307	
Special Education - Grants for Infants and Families	84.181				2,372,081	551,649
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187				327,311	
Education for Homeless Children and Youth	84.196				189,208	140,057
Assistive Technology	84.224				330,009	
Charter Schools	84.282				152,128	129,568
Twenty-First Century Community Learning Centers	84.287				5,802,869	4,932,350
Special Education - State Personnel Development	84.323				294,388	
Research in Special Education	84.324				7,056	
Research in Special Education	84.324		University of Kansas Center for Research *N/A*		22,234	
Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326				40,174	
Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326		University of Connecticut Health Center *N/A*		48,949	
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334				3,696,235	3,122,757
Teacher Quality Partnership Grants	84.336		North Providence School Department *N/A*		831	
English Language Acquisition State Grants	84.365				1,941,360	1,588,894
Mathematics and Science Partnerships	84.366				486,431	460,929
Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants)	84.367				8,879,373	7,749,183
Cooperative Grants for State Assessments (formerly Grants for Enhanced Assessment Instruments)	84.368				(2,259)	
Grants for State Assessments and Related Activities	84.369				4,220,332	
Statewide Longitudinal Data Systems	84.372				228,578	7,557

Federal Grantor / Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
School Improvement Grants	84.377				434,977	323,993
College Access Challenge Grant Program	84.378				(6)	
Transition Programs for Students with Intellectual Disabilities into Higher Education	84.407				388,203	
Race to the Top – Early Learning Challenge	84.412				(64)	
Preschool Development Grants	84.419				5,599,562	3,863,648
Student Support and Academic Enrichment Program	84.424				181,888	89,400
National Center for Educational Statistics	84.U01	ED-IES-14-C-0100			3,854	
National Assessment of Educational Programs	84.U02	ED-IES-14-C-0100			148,035	
Total U.S. Department of Education					$ 1,004,565,558	$ 109,897,494
U.S. Department of Health and Human Services						
National Organizations of State and Local Officials	93.011				$ 1	
Special Programs for the Aging, Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041				31,788	
Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	93.042				82,969	$ 82,926
Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services	93.043				95,150	95,107
Aging Cluster:						
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	93.044			$ 2,629,382		1,998,754
Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045			3,350,551		2,741,374
Nutrition Services Incentive Program	93.053			413,522	6,393,455	412,988
Special Programs for the Aging, Title IV, and Title II, Discretionary Projects	93.048				193,469	114,324
National Family Caregiver Support, Title III, Part E	93.052				739,347	738,956
Public Health Emergency Preparedness	93.069				(7,349)	
Environmental Public Health and Emergency Response	93.070				1,339,261	120,989
Medicare Enrollment Assistance Program	93.071				40,905	39,303
Lifespan Respite Care Program	93.072				225,190	154,640
Birth Defects and Developmental Disabilities - Prevention and Surveillance	93.073				295,195	8,401
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074				5,639,272	740,424
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	93.079				276,402	22,925
Guardianship Assistance	93.090				862,459	
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092				257,181	94,415
Well-Integrated Screening and Evaluation for Women Across the Nation	93.094				718,052	52,601
Food and Drug Administration Research	93.103				1,225,009	
Maternal and Child Health Federal Consolidated Programs	93.110				492,625	67,861

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2018

Federal Grantor / Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Maternal and Child Health Federal Consolidated Programs	93.110		Rhode Island Hospital *N/A*		127,555	
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116				231,454	
Emergency Medical Services for Children	93.127				123,526	
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130				183,650	
Injury Prevention and Control Research and State and Community Based Programs	93.136				3,446,608	1,156,690
Projects for Assistance in Transition from Homelessness (PATH)	93.150				236,160	236,075
Grants to States for Loan Repayment Program	93.165				201,482	201,382
Disabilities Prevention	93.184				(271)	
Childhood Lead Poisoning Prevention Projects, State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197				456,837	12,477
Family Planning Services	93.217				1,138,165	710,133
Grants to States to Support Oral Health Workforce Activities	93.236				205,894	
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243				11,182,899	7,937,738
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		Brown University *N/A*		33,918	
Universal Newborn Hearing Screening	93.251				247,563	83,224
Immunization Cooperative Agreements (See Note 3)	93.268				12,409,048	215,995
Viral Hepatitis Prevention and Control	93.270				136,528	
Substance Abuse and Mental Health Services - Access to Recovery	93.275				(793)	
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283				1,564,282	545,524
State Partnership Grant Program to Improve Minority Health	93.296				272,100	194,096
PPHF 2018: Office of Smoking and Health - National State-Based Tobacco Control Programs, financed in part by 2018 Prevention and Public Health Funds (PPHF)	93.305				1,453,533	247,128
State Health Insurance Assistance Program	93.324				171,751	124,462
Behavioral Risk Factor Surveillance System	93.336				262,700	
Student Financial Assistance Cluster: (See Note 6)						
Health Professions Student Loans, Including Primary Care Loans / Loans for Disadvantaged Students (See Note 2)	93.342			2,422,849		
Nursing Student Loans (See Note 2)	93.364			2,216,503	4,639,352	
ACL Independent Living State Grants	93.369				254,817	
Health Careers Opportunity Program	93.416				(18)	
Food Safety and Security Monitoring Project	93.448				136,907	

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2018

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Maternal, Infant and Early Childhood Home Visiting Cluster:						
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Hove Visiting Program	93.505			(447,969)		
Maternal, Infant and Early Childhood Home Visiting Grant Program	93.870			8,126,904	7,678,935	6,870,375
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511				142,862	
The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF	93.521				2,952,174	
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525				1,715,035	
PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance, financed in part by Prevention and Public Health Funds	93.539				93	
Promoting Safe and Stable Families	93.556				878,567	
TANF Cluster:						
Temporary Assistance for Needy Families	93.558				69,046,769	7,313,747
Child Support Enforcement	93.563				11,290,279	
Refugee and Entrant Assistance State/Replacement Designee Administered Programs	93.566				382,219	159,992
Low-Income Home Energy Assistance	93.568				26,805,880	25,511,360
Community Services Block Grant	93.569				3,851,640	3,689,416
CCDF Cluster:						
Child Care and Development Block Grant	93.575			24,982,188		
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596			11,503,721	36,485,909	3,471,280
Refugee and Entrant Assistance Discretionary Grants	93.576				351,403	328,839
State Court Improvement Program	93.586				327,768	
Community-Based Child Abuse Prevention Grants	93.590				255,355	
Grants to States for Access and Visitation Programs	93.597				103,073	
Head Start	93.600				152,982	
Adoption and Legal Guardianship Incentive Payments	93.603				273,603	
ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance	93.624				5,011,444	1,251,561
Affordable Care Act State Health Insurance Assistance Program (SHIP) and Aging and Disability Resource Center (ADRC) Options Counseling for Medicare-Medicaid Individuals in States with Approved Financial Alignment Models	93.626				115,563	115,483
University Centers for Excellence in Developmental Disabilities Education, Research and Service	93.632				603,297	

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2018

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
ACA Support for Ombudsman and Beneficiary Counseling Programs for States Participating in the Medicare-Medicaid Financial Alignment Initiative	93.634				151,021	
Children's Justice Grants to States	93.643				84,253	
Stephanie Tubbs Jones Child Welfare Services Program	93.645				732,691	
Adoption Opportunities	93.652				335,026	
Foster Care Title IV-E	93.658				13,254,679	
Adoption Assistance	93.659				8,018,009	
Social Services Block Grant	93.667				12,656,112	2,827,494
Child Abuse and Neglect State Grants	93.669				109,427	
Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	93.671				702,974	701,112
Chafee Foster Care Independence Program	93.674				521,560	
Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance, financed in part by Prevention and Public Health Funds (PPHF)	93.733				187,573	
Empowering Older Adults and Adults with Disabilities through Chronic Disease Self-Management Education Programs, financed by Prevention and Public Health Funds (PPHF)	93.734				146,282	14,532
State Public Health Approaches for Ensuring Quitline Capacity, funded in part by Prevention and Public Health Funds (PPHF)	93.735				44,555	385
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations, financed in part by Prevention and Public Health Funds (PPHF)	93.752				1,469,494	262,593
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	93.757				5,486,789	2,343,650
Preventive Health and Health Services Block Grant, funded solely with Prevention and Public Health Funds (PPHF)	93.758				676,024	215,630
Children's Health Insurance Program (See Note 4)	93.767				68,608,480	
Medicaid Cluster:						
State Medicaid Fraud Control Units	93.775			1,059,646		
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777			2,757,218		
Medical Assistance Program (See Notes 4 and 10)	93.778			1,703,103,734	1,706,920,598	
Opioid STR	93.788				801,227	597,513
Money Follows the Person Rebalancing Demonstration	93.791				1,365,641	
Organized Approaches to Increase Colorectal Cancer Screening	93.800				618,977	212,691
Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.815				189,479	
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817				457,090	451,107

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Section 223 Demonstration Programs to Improve Community Mental Health Services	93.829				63,372	
Child Health and Human Development Extramural Research	93.865				20,254	
The Health Insurance Enforcement and Consumer Protections Grant Program	93.881				430,375	
Family and Community Violence Prevention Program	93.910				285,025	136,263
Grants to States for Operation of State Offices of Rural Health	93.913				185,977	
HIV Care Formula Grants (See Note 4)	93.917				6,869,931	685,926
HIV Prevention Activities Health Department Based	93.940				967,711	250,683
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944				121,914	
Assistance Programs for Chronic Disease Prevention and Control	93.945				1,206,972	88,036
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946				151,063	
Block Grants for Community Mental Health Services	93.958				1,362,942	1,073,890
Block Grants for Prevention and Treatment of Substance Abuse	93.959				6,476,482	5,025,501
Sexually Transmitted Diseases (STD) Prevention and Control Grants	93.977				264,218	25,821
Maternal and Child Health Services Block Grant to the States	93.994				1,660,635	869,151
Mammography Quality Standards Act	93.U01	HHSF223201710206C			94,552	
Vital Records - National Death Index	93.U02	200-2017-M-93737			8	
Vital Records - SSA Death Data	93.U03	SS00-12-60050			28,056	
Adult Blood Lead	93.U04	HHSD2142012M52359P			(304)	
Vital Records - SSA Birth Data/EAB	93.U05	SS00-14-61090			78,006	
Food Inspections	93.U06	HHSF223201710096C			139,394	
Vital Records - Data Collection	93.U07	200-2017-92545			222,378	
Total U.S. Department of Health and Human Services					$ 2,070,607,800	$ 83,644,943
Corporation for National and Community Service						
Foster Grandparent/Senior Companion Cluster:						
Senior Companion Program	94.016				$ 351,681	$ 229,662
Total Corporation for National and Community Service					$ 351,681	$ 229,662
Social Security Administration						
Disability Insurance/SSI Cluster:						
Social Security Disability Insurance	96.001				$ 9,409,381	
Social Security - Work Incentives Planning and Assistance Program	96.008				149,224	
Social Security Investigations	96.U01	10.066.3005117			175,269	
Total Social Security Administration					$ 9,733,874	$ -
U.S. Department of Homeland Security						
Pilot Demonstration or Earmarked Projects	97.001				$ (4)	
State and Local Homeland Security National Training Program	97.005				(5,425)	

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Non-Profit Security Program	97.008				(12)	
Boating Safety Financial Assistance	97.012				1,307,330	
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023				101,977	
Flood Mitigation Assistance	97.029				30,700	$ 30,700
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036				320,492	242,494
Hazard Mitigation Grant	97.039				821,900	821,900
National Dam Safety Program	97.041				55,637	
Emergency Management Performance Grants	97.042				4,608,105	658,608
State Fire Training Systems Grants	97.043				11,293	
Assistance to Firefighters Grant	97.044				47,627	
Pre-Disaster Mitigation	97.047				95,992	75,800
Port Security Grant Program	97.056				650,783	
Homeland Security Grant Program	97.067				3,234,497	690,901
National Explosives Detection Canine Team Program	97.072				143,126	
Disaster Assistance Projects	97.088				696,608	696,109
Law Enforcement Officer Reimbursement Agreement Program	97.090				116,080	
Total U.S. Department of Homeland Security					$ 12,236,706	$ 3,216,512
Research and Development Cluster: (See Note 1)						
U.S. Department of Agriculture						
Agricultural Research Basic and Applied Research	10.001			$ 31,750		
Plant and Animal Disease, Pest Control and Animal Care	10.025			44,579		
Plant and Animal Disease, Pest Control and Animal Care	10.025		University of Connecticut - Storrs *119005*	3,890		
Federal-State Marketing Improvement Program	10.156			28,550		
Grants for Agricultural Research, Special Research Grants	10.200		University of Maryland *28598-Z5659005*	48,851		
Grants for Agricultural Research, Special Research Grants	10.200		University of Maine *UMS-1090*	8,365		
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203			1,960,121		
Sustainable Agriculture Research and Education	10.215		University of Vermont *GNE16-136-29994*	9,948		
Sustainable Agriculture Research and Education	10.215		University of Vermont *LNE15-342-29994*	68,214		$ 13,067
Sustainable Agriculture Research and Education	10.215		University of Vermont *ONE17-291-31064*	12,082		
Sustainable Agriculture Research and Education	10.215		University of Vermont *ONE17-304-31064*	12,561		
Sustainable Agriculture Research and Education	10.215		University of Vermont *SNE16-12-31064*	29,533		

Federal Grantor / Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Sustainable Agriculture Research and Education	10.215		Eastern Connecticut Conservation District *ONE 16-279C-29994*	2,034		
Sustainable Agriculture Research and Education	10.215		University of Vermont *GNE17-145-31064*	6,750		
Agricultural and Rural Economic Research, Cooperative Agreements and Collaborations	10.250			13,903		
Integrated Programs	10.303		University of Connecticut - Storrs *Subaward #76428*	39,094		
Homeland Security Agricultural	10.304		Cornell University *80289-10775*	22,484		
Organic Agriculture Research and Extension Initiative	10.307		West Virginia University *#12-638-URI/50078435*	56,764		
Agriculture and Food Research Initiative (AFRI)	10.310			678,624		80,720
Agriculture and Food Research Initiative (AFRI)	10.310		North Carolina University *2015-0097-08*	6,980		
Agriculture and Food Research Initiative (AFRI)	10.310		University of Vermont *28976 SUB 51706*	2,276		
Agriculture and Food Research Initiative (AFRI)	10.310		University of Washington *UWSC10287*	45,435		
Agriculture and Food Research Initiative (AFRI)	10.310		State University of New York *550-1125193-71549*	48,634		
National Food Safety Training, Education, Extension, Outreach and Technical Assistance Competitive Grants	10.328		University of Massachusetts, Amherst *18 10161A00*	18,868		
Crop Protection and Pest Management Competitive Grants Program	10.329			143,083		
Crop Insurance Education in Targeted States	10.458			76,450		
Crop Insurance Education in Targeted States	10.458		National Crop Insurance Services *Risk Management*	108,333		
Cooperative Extension Service	10.500			1,636,738		
Cooperative Extension Service	10.500		University of Connecticut - Storrs *99414*	4,911		
Cooperative Extension Service	10.500		Kansas State University *S17120.01*	21,182		
Forest Health Protection	10.680			(11)		
Soil and Water Conservation	10.902			40,348		4,746
Soil Survey	10.903			30,425		

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2018

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Environmental Quality Incentives Program	10.912			19,445		
Regional Conservation Partnership Program	10.932			5,274		
Regional Conservation Partnership Program	10.932		Connecticut Council on Soil & Water Conservation *N/A*	32,997		
Regional Conservation Partnership Program	10.932		Rhode Island Resource Conservation & Development *N/A*	23,018		
Technical Agricultural Assistance	10.960			453,559		
Other Research and Development - Department of Agriculture	10.RD	G24493093001		368		
Other Research and Development - Department of Agriculture	10.RD	140M0118C0001		43,699		
Evaluating the Genetic Potential for Environmental Adaptation in Eastern Oysters	10.RD	NRSP-8: Auburn- Eval	Auburn University *NRSP-8: Auburn- Eval*	9,947		
U.S. Department of Commerce						
Ocean Exploration	11.011			205,790		
Ocean Exploration	11.011		Ocean Exploration Trust *60105*	85,024		
Integrated Ocean Observing System (IOOS)	11.012		Northeastern Regional Association Of Coastal Ocean Observing Systems *A002-003*	2,898		
Integrated Ocean Observing System (IOOS)	11.012		Northeastern Regional Association of Coastal Ocean Observing Systems *A008-003*	51,507		
Integrated Ocean Observing System (IOOS)	11.012		Rutgers University *655453*	17,455		
Integrated Ocean Observing System (IOOS)	11.012		Rutgers University *S1568768*	(1,908)		
Sea Grant Support	11.417			2,784,217		474,069
Sea Grant Support	11.417		University of Puerto Rico *2016-2017-006*	11,652		
Coastal Zone Management Administration Awards	11.419		Restore America's Estuaries *2016-URI-01*	15,960		
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	11.427			175,721		48,106
Climate and Atmospheric Research	11.431			89,519		
Marine Fisheries Initiative	11.433			73,180		17,172
Unallied Management Projects	11.454			8,263		

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2018

Federal Grantor / Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Meteorologic and Hydrologic Modernization Development	11.467		University of Delaware *44585*	57,693		
Meteorologic and Hydrologic Modernization Development	11.467		University of Delaware *47742*	24,381		
Congressionally Identified Awards and Projects	11.469			3,359		
Unallied Science Program	11.472			127,108		
Office for Coastal Management	11.473		Cape Cod Commission *URI/Opaluch*	75,300		
Office for Coastal Management	11.473		Northeastern Regional Association of Coastal Ocean Observing Systems *A007-003*	5,551		
Science, Technology, Business and/or Education Outreach	11.620			3,119		
Other Research and Development - Department of Commerce	11.RD	EE-133R-16-SU-1184		1,068		
Other Research and Development - Department of Commerce	11.RD	WC133R17SU0143		56,713		48,976
Other Research and Development - Department of Commerce	11.RD	41944	University of Delaware *41944*	278		
Other Research and Development - Department of Commerce	11.RD	NOAA-0040/03	Eastern Research Group *NOAA - 0040/03*	38,309		
Other Research and Development - Department of Commerce	11.RD	Subcontract 2013-11-01	Fisheries Specialists *Subcontract 2013-11-01*	15,021		
U.S. Department of Defense						
Collaborative Research and Development	12.114		Regents of New Mexico State University *SUB #Q01620*	70,590		
Basic and Applied Scientific Research	12.300			2,854,042		92,646
Basic and Applied Scientific Research	12.300		Creare LLC *92249*	38,043		
Basic and Applied Scientific Research	12.300		McLaughlin Research Corporation *1222.0058.001.03000*	2,218		
Basic and Applied Scientific Research	12.300		Massachusetts Institute of Technology *5710003986*	23,993		
Basic and Applied Scientific Research	12.300		University of Connecticut - Storrs *165273*	84,651		
Basic and Applied Scientific Research	12.300		Massachusetts Institute of Technology *PO #4502114933*	286,151		

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2018

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Basic and Applied Scientific Research	12.300		Yardney Technical Products *PO #1484916*	(4)		
Basic and Applied Scientific Research	12.300		McLaughlin Research Corporation *PO-17-0800*	9,837		
Scientific Research - Combating Weapons of Mass Destruction	12.351			251,850		
Military Medical Research and Development	12.420			483,299		156,096
Basic Scientific Research	12.431			37,533		
Basic Scientific Research	12.431		3TEX, Inc. *3Tex Topic No: AO*	8,729		
The Language Flagship Grants to Institutions of Higher Education	12.550		Institute for International Education *0054URI18-CHN280-P01*	276,423		
The Language Flagship Grants to Institutions of Higher Education	12.550		Institute for International Education *0054URI18-SCC280-P02*	(25,400)		
The Language Flagship Grants to Institutions of Higher Education	12.550		Institute for International Education *0054URI18SSC-280-PO3*	94,715		
The Language Flagship Grants to Institutions of Higher Education	12.550		Institute for International Education *0054URI18SSC-280-PO4*	161,300		
Basic, Applied, and Advanced Research in Science and Engineering	12.630			156,600		
Air Force Defense Research Sciences Program	12.800			445,147		
Air Force Defense Research Sciences Program	12.800		TRITON Systems, Inc. *TSI-2550-18-107647*	15,791		
Air Force Defense Research Sciences Program	12.800		Electro Standards Laboratories *W911NF-17-C-0075*	52,138		
Air Force Defense Research Sciences Program	12.800		Defense Engineering Corporation *PO10190Proj-J030*	69,716		
Air Force Defense Research Sciences Program	12.800		Cherokee Nation Technology Solutions *#CNTS RFP 15SA15037*	33,544		
Air Force Defense Research Sciences Program	12.800		Cherokee Nation Technology Solutions *0115700-0003*	14,723		
Air Force Defense Research Sciences Program	12.800		Cherokee Nation Technology Solutions *CNTS RFQ155A15017-..*	(618)		

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2018

Federal Grantor / Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
HSS Propel LLC 2015 Stitchless Seam	12.RD	PO 429	Propel LLC *PO429*	3,966		
U.S. Department of the Interior						
Hurricane Sandy Disaster Relief - Coastal Resiliency Grants	15.153			252,767		57,598
Hurricane Sandy Disaster Relief - Coastal Resiliency Grants	15.408			51,057		
Bureau of Ocean Energy Management (BOEM) Environmental Studies (ES)	15.423			265,085		88,708
Bureau of Ocean Energy Management (BOEM) Environmental Studies (ES)	15.423		HDR / e2M *100030000877*	51,418		
Bureau of Ocean Energy Management (BOEM) Environmental Studies (ES)	15.423		HDR / e2M *1000300001036*	30,632		
Marine Minerals Activities	15.424			94,283		
Fish and Wildlife Management Assistance	15.608			139,355		117,150
Fish and Wildlife Management Assistance	15.630		Wildlife Management Institute *WMI Service Contract*	67,573		
Migratory Bird Monitoring, Assessment and Conservation	15.655			73,634		
Migratory Bird Monitoring, Assessment and Conservation	15.677			24,053		
Migratory Bird Monitoring, Assessment and Conservation	15.678			43,552		
Assistance to State Water Resources Research Institutes	15.805			85,283		
Earthquake Hazards Program Assistance	15.807			61,224		20,000
National Land Remote Sensing Education Outreach and Research	15.815			20,487		
National Land Remote Sensing Education Outreach and Research	15.815		AmericaView *CI - AmericaView Af*	6,268		
Natural Resource Stewardship	15.944			1,206		
Cooperative Research and Training Programs – Resources of the National Park System	15.945			436,966		4,952
Other Research and Development - Department of the Interior	15.RD	M16PC00016		173,964		
Other Research and Development - Department of the Interior	15.RD	G17PA00033		283		
Other Research and Development - Department of the Interior	15.RD	10000300000843	HDR / e2M *10000300000843*	161,636		
Other Research and Development - Department of the Interior	15.RD	1000300000288	HDR / e2M *1000300000288*	58,268		
Other Research and Development - Department of the Interior	15.RD	1000300000695	HDR / e2M *1000300000695*	2,319		
U.S. Department of Justice						
Juvenile Justice and Delinquency Prevention	16.540			2,610		
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560			162,991		
U.S. Department of State						
Environmental and Scientific Partnerships and Programs	19.017		Western Indian Ocean Marine Science Association *S-LMAQM-16-GR-1235*	55,283		

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
U.S. Department of Transportation						
Highway Planning and Construction	20.205		Cornell University *78666-10717*	16,959		
National Aeronautics and Space Administration						
Aeronautics	43.001			541,636		3,554
Aeronautics	43.001		West Virginia University *SUB: 14-764-URI*	11,441		
Aeronautics	43.001		University of Colorado Boulder *1552614*	77,582		
Aeronautics	43.001		Woods Hole Oceanographic Institution *23164800*	21,869		
Aeronautics	43.001		Massachusetts Institute of Technology *5710004234*	2,285		
Aeronautics	43.001		Woods Hole Group, Inc. *23156800 / A101249*	23,976		
Aeronautics	43.001		University of Washington *UWSC10146*	1,070		
Aeronautics	43.001		Skidmore College *32175-2*	34,807		
Education	43.008		Brown University *00000693*	3,712		
Education	43.008		Brown University *00000785*	104,890		
Education	43.008		Brown University *00001086*	33,453		
Education	43.008		Brown University *00001087*	8,925		
Education	43.008		Brown University *00000966*	1,938		
Education	43.008		Brown University *00001012*	93,992		
Other Research and Development - National Aeronautics and Space Administration	43.RD	5710004170	Massachusetts Institute of Technology *5710004170*	40,189		
Institute of Museum and Library Services						
Promotion of the Humanities Challenge Grants	45.130			2,745		
National Leadership Grants	45.312			97,146		7,161

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2018

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
National Science Foundation						
Engineering Grants	47.041			1,165,986		
Engineering Grants	47.041		North Carolina State University *260259A*	25,240		
Mathematical and Physical Sciences	47.049			409,189		
Geosciences	47.050			5,593,607		191,377
Geosciences	47.050		University of Southern California *76246595*	110,094		
Geosciences	47.050		Research Foundation of CUNY *40F93-F*	9,866		
Geosciences	47.050		Woods Hole Oceanographic Institution *PO# E117571*	5,116		
Geosciences	47.050		Woods Hole Oceanographic Institution *A101300*	1,660		
Geosciences	47.050		Brown University *1141*	253		
Geosciences	47.050		University of Miami *SPC-000424*	41,460		
Geosciences	47.050		Texas A&M Research Foundation *418928BA333/F001279*	26,089		
Geosciences	47.050		Texas A&M Research Foundation *F001472*TAMRF/ OD*	2,685		
Geosciences	47.050		Lamont-Doherty Earth Observatory *OCE 1450528*	30,275		
Geosciences	47.050		Woods Hole Oceanographic Institution *85568600*	15,750		
Computer and Information Science and Engineering	47.070			1,179,806		
Biological Sciences	47.074			1,199,071		344,190
Education and Human Resources	47.076			2,051,429		311,691
Polar Programs	47.078		University of Connecticut - Storrs *KFS#5628610, PO13627*	88,132		
Polar Programs	47.078			157,562		
Office of International Science and Engineering	47.079			1,557,087		925,781

Federal Grantor / Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Office of International Science and Engineering	47.079		University of New Hampshire *16-019*	404,611		
Office of International Science and Engineering	47.079		Brown University *N/A*	5,829		
Office of Cyberinfrastructure	47.081			679,146		232,545
Office of Integrative Activities	47.083			1,918,833		476,994
Office of Integrative Activities	47.083		University of Southern California *88919743*	233,379		
Other Research and Development - National Science Foundation	47.RD	1244657		(16,986)		
Other Research and Development - National Science Foundation	47.RD	1819530		18,466		
Other Research and Development - National Science Foundation	47.RD	AD23041	University of Miami *AD23041*	34,694		
Small Business Administration						
Small Business Development Centers	59.037			666,484		
Environmental Protection Agency						
Great Lakes Program	66.469			(116)		
P3 Award: National Student Design Competition for Sustainability	66.516			166		
P3 Award: National Student Design Competition for Sustainability	66.716		Extension Foundation *SA-2017-31*	4,651		
Other Research and Development - Environmental Protection Agency	66.RD	00A00249	Barnstable County *00A00249*	67,241		
Other Research and Development - Environmental Protection Agency	66.RD	00A00252	Mass Audubon *00A00252*	79,903		
Other Research and Development - Environmental Protection Agency	66.RD	56.000.6200.000	Town of Charlestown *56.000.6200.000*	78,074		
Other Research and Development - Environmental Protection Agency	66.RD	EP-17-Z-000012		754		
U. S. Nuclear Regulatory Commission						
U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008			32,677		
U.S. Department of Energy						
Office of Science Financial Assistance Program	81.049		Brown University *00000475/PO# P276735*	382,501		
Office of Science Financial Assistance Program	81.049		Donald Danforth Plant Science Center *23021-R*	74,572		
Office of Science Financial Assistance Program	81.049		Pennsylvania State University *5027-URI-DOE-1090*	103,752		
Conservation Research and Development	81.086		Calstart *FS3-16-3-18*	309		
Conservation Research and Development	81.086		Electrification Coalition *URI/Lucht*	5,373		

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Conservation Research and Development	81.086		Plug In America *URI/Lucht*	16,817		
Conservation Research and Development	81.086			37,095		
U.S. Department of Education						
Undergraduate International Studies and Foreign Language Programs	84.016			44,695		
U.S. Department of Health and Human Services						
Area Health Education Centers	93.107		Brown University *00000574 PO#P281714*	15,959		
Area Health Education Centers	93.107		Brown University *1125*	69,681		
Maternal and Child Health Federal Consolidated Programs	93.110			14,784		
Environmental Health	93.113		Harvard University *114185-102737*	22,182		
Environmental Health	93.113			304,312		95,286
NIEHS Superfund Hazardous Substances - Basic Research and Education	93.143		Brown University *00000846*	29,289		
NIEHS Superfund Hazardous Substances - Basic Research and Education	93.143			1,161,627		441,492
Research and Training in Complementary and Integrative Health	93.213			79,730		
Research on Health Care Costs, Quality and Outcomes	93.226		Boston University Medical Center *0370901*	10,953		
Mental Health Research Grants	93.242		University of North Carolina - Greensboro *20110511.1*	19,385		
Mental Health Research Grants	93.242		Rhode Island Hospital *7137207*	13,681		
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		Kent Center *URI/Stein*	7,987		
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		Community Care Alliance *URI/Stein*	21,864		
Advanced Nursing Education Workforce Grant Program	93.247			566,539		37,356
Occupational Safety and Health Program	93.262			541,418		225,649
Alcohol Research Programs	93.273			441,853		101,144
Drug Abuse and Addiction Research Programs	93.279		Brown University *1079*	90,238		
Drug Abuse and Addiction Research Programs	93.279		Bay State Medical Center *15-260*	55,559		
Drug Abuse and Addiction Research Programs	93.279		The Miriam Hospital *7147060LAS*	1,396		

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Drug Abuse and Addiction Research Programs	93.279			986,241		
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286			37,028		
Trans-NIH Research Support	93.310			166,561		
Nursing Research	93.361		Yale University *M17A12609(A10935)*	100,794		
Cancer Cause and Prevention Research	93.393			207,132		49,444
Cancer Biology Research	93.396			13,956		
Cancer Research Manpower	93.398		Brown University *00000941*	13,433		
Developmental Disabilities Basic Support and Advocacy Grants	93.630			408,719		407,469
Accountable Health Communities	93.650		Care New England Health System *100001-2*	48,661		
Cardiovascular Diseases Research	93.837		Brown University *SUB AWARD# 00000729*	67,274		
Cardiovascular Diseases Research	93.837		Brown University *00000729/PUR-0018995*	50,832		
Cardiovascular Diseases Research	93.837		University of North Carolina - Chapel Hill *5104378*	12,772		
Cardiovascular Diseases Research	93.837		Tufts University *SU0166*	(76)		
Diabetes, Digestive and Kidney Diseases Extramural Research	93.847			(565)		
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853			585,203		31,619
Allergy and Infectious Diseases Research	93.855			1,425,347		330,513
Allergy and Infectious Diseases Research	93.855		Harvard University *114170-5102735*	24,493		
Allergy and Infectious Diseases Research	93.855		University of California at Davis *SUB. 201303042-03*	62,576		
Microbiology and Infectious Diseases Research	93.856			62,652		
Biomedical Research and Research Training	93.859			6,326,876		2,768,127
Biomedical Research and Research Training	93.859		Brown University *00000938*	174,858		
Biomedical Research and Research Training	93.859		Brown University *00001023*	154,665		
Biomedical Research and Research Training	93.859		Brown University *00001044*	43,755		
Biomedical Research and Research Training	93.859		Brown University *00001049*	21,232		

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Biomedical Research and Research Training	93.859		Brown University *00001098*	19,077		
Biomedical Research and Research Training	93.859		Brown University *00001142*	155,260		
Child Health and Human Development Extramural Research	93.865			936,597		292,634
Aging Research	93.866			219,266		
Aging Research	93.866		Yale University *GR100954CON80000919*	138,843		
Research, Prevention and Education Programs on Lyme Disease in the United States	93.942		Western Connecticut State University *CDC2017A*	122,963		
Block Grants for Prevention and Treatment of Substance Abuse	93.959		Yale University *M16A12388 (A10553)*	216,741		
PPHF Geriatric Education Centers	93.969			1,017,482		323,197
Other Research and Development - Department of Health and Human Services	93.RD	CDC2016A	Western Connecticut State University *CDC2016A*	49,569		
Corporation for National and Community Service:						
AmeriCorps	94.006		Jumpstart for Young Children, Inc. *340200*	82,623		
U.S. Department of Homeland Security						
State and Local Homeland Security National Training Program	97.005			114,678		29,461
Centers for Homeland Security	97.061		University of North Carolina - Chapel Hill *5101662*	392,421		
Centers for Homeland Security	97.061		Northeastern University *SUB 505035-78059*	635,230		172,848
Agency for International Development						
USAID Foreign Assistance for Programs Overseas	98.001			7,397,876		1,862,724
USAID Foreign Assistance for Programs Overseas	98.001		International Union for Conservation *P002510*	14,918		
USAID Foreign Assistance for Programs Overseas	98.001		Institut Pertanian Bogor *USAID SHERA: Interdi*	4,157		
USAID Foreign Assistance for Programs Overseas	98.001		Institut Pertanian Bogor *URI11/IT3.2/KSP/2018*	5,306		
USAID Foreign Assistance for Programs Overseas	98.001		PACT *72068718C00001*	9,683		

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2018

Federal Grantor Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and Entity Award Number	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
USAID Foreign Assistance for Programs Overseas	98.001		University of Connecticut Avery Point *SUBAWARD 43878*	25,324		
USAID Foreign Assistance for Programs Overseas	98.001		PACT *USAID 612-A-14-00004*	590,129		15,577
Other Research and Development - Agency for International Development	98.RD	GEM52-UIR-1	The Cadmus Group, Inc. *GEM52-UIR-1*	66,757		
Total Research and Development Cluster					$ 63,888,056	$ 10,901,839
Total Expenditures of Federal Awards					$ 4,926,848,652	$ 318,672,389

NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the State of Rhode Island and Providence Plantations (the State). This Schedule is presented for purposes of additional analysis and in accordance with Title 2 U.S. Code of Federal Regulations Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance").

The reporting entity is defined in the Notes to the Basic Financial Statements that are presented in section A of this report (see Note 1 to the basic financial statements – Summary of Significant Accounting Policies – B. Reporting Entity). When federal financial assistance is received by one state entity and passed through to another state organization (contained within the reporting entity), the federal financial assistance is reflected by the primary recipient organization to avoid duplication and overstatement of the aggregate level of federal financial assistance expended by the State.

Expenditures reported on the Schedule are recognized following, as applicable, either the cost principles contained in the Uniform Guidance, or, in limited instances, the cost principles in Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule differ from amounts presented in, or used in the preparation of, the basic financial statements.

Programs are generally listed in the Catalog of Federal Domestic Assistance (CFDA) number order by federal funding agency. When the CFDA number is not available from the State or component unit's accounting records, the federal funding agency is identified and these amounts are included in the Schedule along with federal awards for that federal grantor agency (e.g., 84.U01). The Research and Development (R&D) Cluster is presented at the end of the schedule because there are multiple federal funding agencies. As a result, total expenditures of federal awards presented for some federal funding agencies do not include expenditures for R&D programs.

Programs funded by the American Recovery and Reinvestment Act of 2009 (ARRA) have been separately identified in the Schedule using the prefix ARRA in the program title. In some instances, unique CFDA numbers were created for ARRA funded programs. When a unique CFDA number was not created, the same CFDA number is repeated with the ARRA prefix included in the program description to identify the portion of the program funded by ARRA.

Cash assistance is presented using the same basis of accounting as that used in reporting the expenditures (or expenses) of the related funds and component units in the State's basic financial statements (see Note 1 to the basic financial statements – Summary of Significant Accounting Policies – D. Measurement Focus and Basis of Accounting).

Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Loans have been included in the Schedule in accordance with the Uniform Guidance, whereby, loans with continuing federal compliance requirements are recorded at the value of new loans made or received during the audit period, plus beginning of the audit period balance of loans from previous years, plus cash and/or administrative cost allowances. Loans that do not have continuing federal compliance requirements are recorded at the value of new loans made or received during the audit period, plus cash and/ or administrative cost allowances.

NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

None of the State's large loan programs met the criteria that would require such amounts to be excluded from the State's Type "A" major program threshold.

Non-monetary assistance is also included in the Schedule consistent with Uniform Guidance requirements. Additionally, all non-monetary assistance has been included in determining major programs as defined by the Uniform Guidance. Non-monetary assistance included in the schedule is listed by federal program in Note 3 to this schedule.

NOTE 2. LOAN, LOAN GUARANTEE AND INSURANCE PROGRAMS

Expenditures of federal awards include assistance in the form of loans, loan guarantees, and insurance. The following table details all loans, loan guarantees, and insurance included in the Schedule of Expenditures of Federal Awards.

CFDA Number	Loan, Loan Guarantee and Insurance Programs	Expenditures of Federal Awards Year Ended June 30, 2018	Loans Assistance June 30, 2018	Loan Outstanding Balance June 30, 2018
10.410	Very Low to Moderate Income Housing Loans	$ 80,808	$ 80,808	*N/A*
11.307	Economic Adjustment Assistance	9,655,045	9,655,045	$ 5,269,645
14.117	Mortgage Insurance – Homes	324,421,331	324,421,331	*N/A*
14.189	Qualified Participating Entities (QPE) Risk Sharing	229,751,427	229,751,427	221,922,798
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	11,681,645	8,771,352	8,623,819
14.239	Home Investment Partnerships Program	23,711,663	23,711,663	23,514,191
84.032	Federal Family Education Loans (Guarantee Agency)	645,817,408	644,206,829	538,943,557
84.038	Federal Perkins Loan Program – Federal Capital Contributions	14,357,752	14,357,752	11,012,354
84.268	Federal Direct Student Loans	135,178,362	135,178,362	*N/A*
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	2,422,849	2,422,849	1,790,423
93.364	Nursing Student Loans	2,216,503	2,216,503	1,613,860

Note: Outstanding Loan Balance containing "N/A" indicates no continuing compliance requirements.

Federal awards which include loan, loan guarantee and insurance programs are presented as follows:

Loan, Loan Guarantee and Insurance Programs

- The following guaranteed/insured mortgage loan programs are reported at the value of loans originated or purchased during the fiscal year: Very Low to Moderate Income Housing Loans (CFDA 10.410); and Mortgage Insurance-Homes (CFDA 14.117).

- Other guaranteed/insured mortgage loan programs are reported at the value of beginning of the audit period loan balances plus loans originated or purchased during the fiscal year: Qualified Participating Entities (QPE) Risk Sharing (CFDA 14.189); Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CFDA 14.228); Home Investment Partnerships Program (CFDA 14.239).

NOTE 2. LOAN, LOAN GUARANTEE AND INSURANCE PROGRAMS (continued)

- Economic Adjustment Assistance (CFDA 11.307) includes the outstanding principal balance of loans originated under, and the balance of cash and cash equivalents of, the Revolving Loan Fund, and the administrative expenses paid from income earned.

- Federal Family Education Loans (Guarantee Agency) (CFDA 84.032) are reported at the beginning of the audit period loan balances plus any administrative cost allowances.

- Federal Direct Student Loans – (CFDA 84.268) are reported at the value of loans made during the fiscal year.

- Federal Perkins Loan Program – Federal Capital Contributions (CFDA 84.038), Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students (CFDA 93.342) and Nursing Student Loans (CFDA 93.364) are reported at the beginning of the audit period loan balances plus loans made during the year and any administrative cost allowances.

NOTE 3. NON-MONETARY ASSISTANCE

Expenditures of federal awards include non-monetary assistance in the form of donated food commodities, vaccines, and property. The following table details all non-monetary assistance included in the Schedule of Expenditures of Federal Awards.

CFDA Number	Program	Expenditures of Federal Awards Year Ended June 30, 2018	Non-monetary Assistance Year Ended June 30, 2018
10.555	National School Lunch Program	$ 35,713,767	$ 4,567,224
10.559	Summer Food Service Program for Children	1,539,984	6,143
10.569	Emergency Food Assistance Program (Food Commodities)	1,250,298	1,250,298
39.003	Donation of Federal Surplus Personal Property	5,207,964	5,207,964
93.268	Immunization Cooperative Agreements	12,409,048	10,821,011

Non-Monetary Assistance is presented as follows:

- National School Lunch Program (CFDA 10.555), Summer Food Service Program for Children (CFDA 10.559) and Emergency Food Assistance Program (Food Commodities) (CFDA 10.569) are reported at the fair market value of food distributed.

- Donation of Federal Surplus Personal Property (CFDA 39.003) is reported at the assessed value provided by the federal agency.

- Immunization Cooperative Agreements (CFDA 93.268) includes the value of vaccines received at the contracted price (amount paid by the federal Centers for Disease Control to the manufacturer) and cash assistance for administrative costs.

NOTE 4. REBATES OF PROGRAM EXPENDITURES

The State received the following program expenditure rebates during fiscal 2018:

CFDA Number	Program		Rebate Amount
10.557	WIC Special Supplemental Nutrition Program for Women, Infants and Children	$	5,398,626
93.767	Children's Health Insurance Program (CHIP)		2,708,575
93.778	Medical Assistance Program		92,046,235
93.917	HIV Care Formula Grants		5,552,079

Manufacturers of infant formula (WIC) and prescription drugs (Medical Assistance, CHIP, and HIV) remitted the rebates. The Medical Assistance Program and CHIP rebates reduced previously-incurred program expenditures; therefore, expenditures of these programs are reported net of the applicable federal share of rebates earned during fiscal year 2018. Rebates received under the HIV Care Formula Grants are considered program income. WIC program expenditures include amounts funded by rebates earned as well as direct federal assistance.

NOTE 5. UNEMPLOYMENT INSURANCE EXPENDITURES

Expenditures of federal awards for Unemployment Insurance (CFDA 17.225) represent $145.5 million funded from the State's account in the federal Unemployment Trust Fund and $14.8 million funded by federal grants.

NOTE 6. STUDENT FINANCIAL ASSISTANCE CLUSTER

Expenditures for the Student Financial Assistance Cluster are listed under two separate departments, Department of Education and Department of Health and Human Services. The total expenditures for the Cluster are $214,411,405.

NOTE 7. ITEMS EXCLUDED FROM THE SEFA

In accordance with guidance included in the OMB Compliance Supplement, and 12 USC 5702, amounts received by the State under the Build America Bonds are not included in the Schedule of Expenditures of Federal Awards. The State received $1,879,902 during fiscal year 2018, which was reported as federal revenue in the State's financial statements.

NOTE 8. EXPENDITURES OF OTHER AWARDS

Some expenditures of federal awards included in the Schedule are not specifically identified by CFDA number. When the federal funding agency is known, these amounts are included in the Schedule along with federal awards for that federal grantor agency (e.g., 84.U01). In these instances, an Additional Award Identification Number or information, such as, a federal contract award number or state account number are included in the Schedule.

Certain Research and Development expenditures of federal awards are similarly reflected in the accompanying Schedule when the federal awarding agency is known but not the specific CFDA number.

NOTE 9. INDIRECT FACILITIES AND ADMINISTRATIVE COSTS

Agencies that have never received a negotiated cost rate may elect to charge a de minimis rate of 10% of modified total direct costs that may be used indefinitely. This methodology must be used consistently for all federal awards until such time as an agency chooses to negotiate for a rate, which an agency may apply to do at any time. None of the agencies included in the SEFA for the year ended June 30, 2018, have elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 10. MEDICAL ASSISTANCE PROGRAM - ACCRUED PROGRAM EXPENDITURES

The Schedule of Expenditures of Federal Awards reports federal expenditures for the Medical Assistance Program (CFDA 93.778) on an accrual basis causing timing differences with federal expenditures claimed on a cash basis on federal reports. These accrued expenditures are typically claimed/reported in the next quarter. In certain instances, as described below, the timing differences may be longer. The following are examples of accruals made for the Medical Assistance Program to properly reflect the following program activity in the State's financial statements:

a) The federal share of advances to nursing home providers, required due to delays in determining recipient eligibility, was estimated for financial reporting purposes (including the SEFA). These advances will not be claimed on federal reports until eligibility is documented and the related claims are adjudicated through the Medicaid Management Information System (MMIS).

b) The federal share of contract settlements with managed care organizations was estimated for financial reporting purposes (including the SEFA). These amounts are not claimed on federal reports until final settlements are calculated and paid or received by the State.

c) The federal share of accrued drug rebates was estimated for financial reporting purposes based on the pharmacy claim date of service. These rebate credits are claimed on federal reports when received from the drug manufacturer.

NOTE 11. PRIOR PERIOD ADJUSTMENT FROM CHILDREN'S HEALTH INSURANCE PROGRAM TO THE MEDICAL ASSISTANCE PROGRAM

In accordance with federal reporting guidance from CMS in fiscal 2018, the Executive Office of Health and Human Services (EOHHS) reclassified the federal Medical Assistance participation share, approximately 51%, of the Children's Health Insurance Program claiming for children ages 1-18 with household incomes between 138-157% Federal Poverty Level (FPL) to the Medical Assistance Program. CMS allowed EOHHS to adjust the previous eight fiscal quarters on the September 30, 2017 quarterly report. This resulted in a $17 million reduction of the Children's Health Insurance Program expenditures in the 2018 Schedule of Expenditures of Federal Awards to reduce fiscal 2016 and 2017 claiming by $7.2 million and $8.1 million, respectively.

Auditor's Reports

Auditor's Reports

Table of Contents

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly,
State of Rhode Island and Providence Plantations:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Rhode Island and Providence Plantations (the State), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the State's basic financial statements and have issued our report thereon dated December 28, 2018. Our report includes a reference to other auditors who audited the financial statements of:

- the Tobacco Settlement Financing Corporation, a blended component unit which represents 1% of the assets and deferred outflows and 1% of the revenues of the governmental activities and 1% of the assets and 2% of the revenues of the aggregate remaining fund information;

- the Convention Center Authority, a major fund, which also represents 27% of the assets and deferred outflows and 3% of the revenues of the business-type activities;

- the HealthSource RI Trust, an agency fund, the Ocean State Investment Pool, an investment trust fund, and the Rhode Island Higher Education Savings Trust, a private-purpose trust fund, which collectively represent 37% of the assets and 21% of the revenues of the aggregate remaining fund information; and

- all the component units comprising the aggregate discretely presented component units.

This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed in the accompanying *Schedule of Findings and Questioned Costs*, we and the other auditors identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the State's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying *Schedule of Findings and Questioned Costs* (Section D) as findings 2018-002, 2018-003, 2018-014, 2018-016, 2018-020 and 2018-030 to be material weaknesses. Other auditors of the discretely presented component units considered the deficiency described in the accompanying *Schedule of Findings and Questioned Costs* as finding 2018-034 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying *Schedule of Findings and Questioned Costs* as findings 2018-001, 2018-004, 2018-005, 2018-006, 2018-007, 2018-008, 2018-009, 2018-010, 2018-011, 2018-012, 2018-013, 2018-015, 2018-017, 2018-018, 2018-019, 2018-021, 2018-022, 2018-023, 2018-024, 2018-025, 2018-026, 2018-027, 2018-028, 2018-029, 2018-031, 2018-032 and 2018-033 to be significant deficiencies. Other auditors of the discretely presented component units considered the deficiencies described in the accompanying *Schedule of Findings and Questioned Costs* as findings 2018-035 and 2018-037 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests and those of the other auditors disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying *Schedule of Findings and Questioned Costs* as finding 2018-036.

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly

State's Response to Findings

The State's responses and corrective action plans to the findings identified in our audit are described in the accompanying *State's Corrective Action Plan* (Section E). The State's responses and corrective action plans were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses or corrective action plans.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dennis E. Hoyle, CPA
Auditor General

December 28, 2018

Office of the Auditor General
State of Rhode Island and Providence Plantations - General Assembly
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY THE UNIFORM GUIDANCE

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly,
State of Rhode Island and Providence Plantations:

Report on Compliance for Each Major Federal Program

We have audited the State of Rhode Island and Providence Plantations' (the State) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the State's major federal programs for the year ended June 30, 2018.

The State's major federal programs are identified in Section I **-** *Summary of Auditor's Results* of the accompanying *Schedule of Findings and Questioned Costs* (Section D).

We did not audit the major federal programs or percentages of federal programs listed below. Those programs were audited by other auditors whose reports on compliance with requirements applicable to each major federal program were furnished to us, and our opinion, insofar as it relates to compliance requirements for these programs, is based solely on the reports of the other auditors.

2018 Major Programs Audited by Other Auditors

Program Title:	***CFDA Number***
Home Investment Partnerships Program	14.239
Federal Transit Cluster:	
Federal Transit – Capital Investment Grants	20.500
Federal Transit – Formula Grants	20.507
Bus and Bus Facilities Formula Program	20.526
Research & Development Cluster	Various

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the State's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly

perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit, and the reports of the other auditors, provide a reasonable basis for our adverse, qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the State's compliance.

Basis for Adverse Opinions on the Supplemental Nutrition Assistance Program (SNAP) Cluster and Temporary Assistance for Needy Families (TANF) Cluster

As identified in the following table and as described in the accompanying schedule of findings and questioned costs, the State did not comply with requirements regarding the following:

CFDA #	Program (Cluster) Name	Compliance Requirements	Findings
10.551 10.561	**Supplemental Nutrition Assistance Program Cluster**	• Reporting • Automated Data Processing (ADP) for SNAP • Electronic Benefit Transfer Reconciliation	2018-040 2018-041 2018-042
93.558	**Temporary Assistance for Needy Families Cluster**	• Eligibility • Income Eligibility Verification System (IEVS)	2018-056 2018-059

Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to the identified major federal programs.

Adverse Opinions on the Supplemental Nutrition Assistance Program Cluster and Temporary Assistance for Needy Families Cluster

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinions paragraph, the State did not comply, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Supplemental Nutrition Assistance Program (SNAP) Cluster and the Temporary Assistance for Needy Families Cluster.

Basis for Qualified Opinions on Unemployment Insurance, Child Care and Development Fund Cluster, Children's Health Insurance Program, and Medicaid Cluster

As identified in the following table and as described in the accompanying schedule of findings and questioned costs, the State did not comply with requirements that are applicable to the following major federal programs:

CFDA #	Program (Cluster) Name	Compliance Requirement	Finding
17.225	**Unemployment Insurance**	Special Tests and Provisions – UI Program Integrity – Overpayments	2018-047
93.575 93.596	**Child Care and Development Cluster**	Eligibility	2018-064

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly

93.767	**Children's Health Insurance Program**	Eligibility	2018-065
93.775 93.777 93.778	**Medicaid Cluster**	Eligibility	2018-066

Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those major federal programs.

Qualified Opinions on Unemployment Insurance, Child Care and Development Cluster, Children's Health Insurance Program, and Medicaid Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions paragraph, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Unemployment Insurance, Child Care and Development Cluster, Children's Health Insurance Program, and Medicaid Cluster for the year ended June 30, 2018.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, based on our audit and the reports of the other auditors, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in Section I - *Summary of Auditor's Results* of the accompanying *Schedule of Findings and Questioned Costs* for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures, and those performed by the other auditors, disclosed instances of noncompliance or other matters, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying *Schedule of Findings and Questioned Costs* as findings 2018-045, 2018-069 and 2018-077. Our opinion on each major program is not modified with respect to these matters.

The State's responses and corrective action plans to the noncompliance findings identified in our audit are described in the accompanying *State's Corrective Action Plan* (Section E). The State's responses and corrective action planswere not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses and corrective action plans.

Report on Internal Control Over Compliance

Management of the State is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we, and the other auditors, considered the State's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly

Our consideration, and the consideration of the other auditors, of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we, and the other auditors, did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We, and the other auditors, consider the deficiencies in internal control over compliance described in the accompanying *Schedule of Findings and Questioned Costs* as findings 2018-038, 2018-040, 2018-041, 2018-042, 2018-047, 2018-051, 2018-054, 2018-056, 2018-057, 2018-058, 2018-059, 2018-061, 2018-062, 2018-064, 2018-065, 2018-066, 2018-067, 2018-068, 2018-070 and 2018-071 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We, and the other auditors, consider the deficiencies in internal control over compliance described in the accompanying *Schedule of Findings and Questioned Costs* as findings 2018-039, 2018-043, 2018-044, 2018-046, 2018-048, 2018-049, 2018-050, 2018-052, 2018-053, 2018-055, 2018-060, 2018-063, 2018-072, 2018-073, 2018-074, 2018-075, 2018-076 and 2018-078 to be significant deficiencies.

The State's responses and corrective action plans to the internal control over compliance findings identified in our audit are described in the accompanying *State's Corrective Action Plan* (Section E). The State's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses and corrective action plans.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dennis E. Hoyle, CPA
Auditor General

March 29, 2019

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

Table of Contents

Basic Financial Statements

1) The independent auditor's report on the basic financial statements expressed the following opinions:

Opinion Unit	Opinion
Governmental Activities	Unmodified
Business–type Activities	Unmodified
Aggregate Discretely Presented Component Units	Unmodified
Major funds –	
General	Unmodified
Intermodal Surface Transportation	Unmodified
Lottery	Unmodified
Convention Center Authority	Unmodified
Employment Security	Unmodified
Aggregate Remaining Fund Information	Unmodified

2) The audit of the basic financial statements disclosed significant deficiencies and material weaknesses in internal control over financial reporting.

3) The audit disclosed an instance of noncompliance, which was material to the basic financial statements, and is required to be reported in accordance with *Government Auditing Standards.*

Federal Awards

4) The audit disclosed significant deficiencies in internal control over major programs, some of which were classified as material weaknesses.

5) The independent auditor's report on compliance for major programs expressed:

an adverse opinion for the following major programs;

Program	CFDA #
SNAP Cluster	10.551 and 10.561
TANF Cluster	93.558

a qualified opinion for the following major programs;

Program	CFDA #
Unemployment Insurance	17.225
CCDF Cluster	93.575 and 93.596
Children's Health Insurance Program	93.767
Medicaid Cluster	93.775, 93.777 and 93.778

and an unmodified opinion for all remaining major programs.

6) The audit disclosed findings that must be reported in accordance with 2 CFR 200.516(a) of OMB Uniform Guidance provisions.

7) Major programs are listed in the table below.

2018 Major Programs ***Program Title:***	***CFDA Number***
Supplemental Nutrition Assistance Program (SNAP) Cluster:	
Supplemental Nutrition Assistance Program (SNAP)	10.551
State Administrative Matching Grants for the SNAP Program	10.561
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Milk Program for Children	10.556
Summer Food Service Program for Children	10.559
National Guard Military Operations and Maintenance (O&M) Projects	12.401
Home Investment Partnerships Program	14.239
Equitable Sharing Program	16.922
Unemployment Insurance	17.225
Highway Planning and Construction Cluster:	
Highway Planning and Construction	20.205
Recreational Trails Program	20.219
Federal Transit Cluster:	
Federal Transit – Capital Investment Grants	20.500
Federal Transit – Formula Grants	20.507
Bus and Bus Facilities Formula Program	20.526
Special Education Cluster:	
Special Education – Grants to States	84.027
Special Education – Preschool Grants	84.173
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243
TANF Cluster:	
Temporary Assistance for Needy Families	93.558
Low-Income Home Energy Assistance	93.568
CCDF Cluster:	
Child Care and Development Block Grant	93.575
Child Care Mandatory and Matching Funds of the Child Care Development Fund	93.596
Children's Health Insurance Program	93.767
Medicaid Cluster:	
State Medicaid Fraud Control Units	93.775
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777
Medical Assistance Program	93.778
Block Grants for Prevention and Treatment of Substance Abuse	93.959
Research & Development Cluster	Various

8) The dollar threshold used to distinguish between Type A and Type B programs was $14,780,546.

9) The State did not qualify as a low-risk auditee as defined by OMB Uniform Guidance.

10) Major Programs audited by other auditors are listed in the table below:

2018 Major Programs Audited by Other Auditors	
Program Title:	***CFDA Number***
Home Investment Partnerships Program	14.239
Federal Transit Cluster:	
Federal Transit – Capital Investment Grants	20.500
Federal Transit – Formula Grants	20.507
Bus and Bus Facilities Formula Program	20.526
Research & Development Cluster	Various

Finding 2018-001 ***(significant deficiency – repeat finding – 2017-001 and 2017-025)***

STRATEGIC AND BUSINESS CONTINUITY PLANNING FOR CRITICAL FINANCIAL AND ADMINISTRATIVE COMPUTER SYSTEMS

The State lacks a strategic plan to (1) coordinate needed replacements/enhancements to its key statewide financial and administrative systems and (2) ensure that critical legacy financial systems, such as the payroll system, which pose a business continuity risk, will be available to support State operations. Without a comprehensive plan, there is substantial risk that the intended integration of various components may not be achieved.

Background: The State is currently addressing needed functionalities within its centralized financial and administrative systems by implementing various independent software solutions rather than modules within the Oracle E-Business Suite – the original platform for the State's Enterprise Resource Planning (ERP) system. The intent of an ERP system is to optimize integration thereby enhancing efficiency. The State has moved towards a piecemeal approach of installing separate software solutions without a comprehensive plan for achieving a fully integrated ERP system.

The State is currently working towards the implementation of a new procurement and payables system and the State is reviewing options to replace its antiquated payroll system. The need for these replacements/enhancements is undisputed and the allocation of resources to these projects is encouraging. However, failure to develop a comprehensive plan to guide these projects and ensure their intended integration remains a significant concern. Without a comprehensive plan, there is substantial risk that the intended integration of various components may not be achieved. In fact, the State has already experienced such integration issues. The State halted work on a time and effort reporting system project due to an inability to interface the system with other State information systems after expending approximately $2 million through fiscal 2017. During fiscal 2018, the State terminated the implementation of a Grants Management System due to the vendor's inability to meet the functionalities required from the software. The State had expended approximately $974 thousand (software vendor and consulting services) on the Grants Management System at the time the project was terminated towards the end of fiscal 2018. The State posted another RFP for an Enterprise Grants Management System in November 2018.

A comprehensive plan is critical to ensure that the various software solutions align at some future point to meet the State's overall financial management needs. When separate software solutions are used to accomplish multiple objectives, the responsibility of ensuring data connectivity and integration falls more to the user. Examples of the desired integration among these functionalities include:

- time and effort information flows to the payroll system which supports allocation of personnel costs to federal grants through grants management software;
- budget preparation is aided by information flows from the payroll system and the centralized accounting system which contains actual expenditure data; and
- the procurement system easily interfaces with the accounts payable module to optimize controls and streamline payment processing.

The financial statements for the Intermodal Surface Transportation (IST) Fund are prepared primarily from the State's RIFANS accounting system; however, a significant amount of financial reporting data is derived from RIDOT's Financial Management System (FMS). Because these two accounting systems were not designed to easily share data, preparation of annual financial statements for the IST Fund is unduly complex.

The State began developing a Request For Proposals (RFP) during fiscal 2018 to contract with a consulting partner for the development of an Enterprise Applications Strategic Plan to address this issue. The RFP was posted in January 2019 to solicit proposals. Responses have been received and are being evaluated.

Criteria: Management is responsible for establishing and maintaining internal control over financial reporting to ensure accurate and complete reporting of transactions in accordance with generally accepted accounting principles. This responsibility includes well-designed financial systems that support internal control over financial reporting.

Condition: Important functionalities are currently met either through legacy systems or through multiple departmental processes without the intended integration and efficiencies. This results in business continuity risk, decreased efficiency and effectiveness, and control weaknesses. Some of the State's critical systems utilize outdated technology which makes these operations vulnerable from a business continuity and systems security perspective. Certain legacy systems utilize software that is no longer supported and the availability of skilled personnel to work on the systems is limited.

Many of the functionalities either pending implementation or contemplated are interdependent. The risk of failed integration is increased due to the long-term implementation timeline that could likely transcend multiple administrations.

Use of two computer systems to account for the activities of the Intermodal Surface Transportation (IST) Fund is unduly complex and weakens controls over financial reporting. The RIDOT FMS contains detailed project-level data which loses its project character when transmitted to RIFANS; however, the project-level data is needed for financial reporting purposes. When the project-level RIDOT FMS data is used, it must be reconciled and adjusted to conform to RIFANS accounting conventions. Various supplemental manual and reconciliation processes have been implemented to provide the information needed for financial reporting. While recording transactions in two accounting systems is inherently duplicative, this process would be less challenging if the configuration and accounting conventions were the same.

Cause: The State's current accounting and financial reporting system lacks the integration and functionality of a comprehensive ERP system. The State owns multiple modules (and continues to pay annual licensing fees for modules that are not utilized) within the Oracle-E-Business Suite but has decided to explore separate software solutions for many of the ERP functionalities which will require interfacing those solutions with the State's Oracle general ledger and related modules. The State is attempting these implementations without first developing a comprehensive strategic plan to address these issues through an integrated ERP solution.

The RIFANS and RIDOT FMS accounting systems were not designed with compatible account structures yet certain critical tasks are required to be executed through RIFANS. RIDOT's FMS system is more comprehensive in scope and is designed to meet RIDOT's project-based accounting focus and federal program compliance requirements while RIFANS is used for financial reporting, budgetary control, and vendor payment processing.

Funding for the various information technology enhancements to be identified and addressed through the strategic plan is constrained. The Information Technology Investment Fund has been created to address this need but lacks a consistent and adequate dedicated funding stream. Currently, the proceeds from land sales are dedicated to this effort. However, such proceeds are intermittent and insufficient, considering the scope of work anticipated.

Effect: Business continuity risks and deficiencies in internal control over financial reporting exist and are exacerbated due to the lack of an integrated ERP system.

Normal RIDOT accounting operations require extensive reconciliation and duplicate processing which adds significant complexity to the financial reporting process and diminishes the effectiveness of controls over financial reporting.

RECOMMENDATIONS

2018-001a Develop and implement a comprehensive strategic plan to address the integration approach and business continuity risks for planned and contemplated replacements/enhancements to critical statewide financial system functionalities.

2018-001b Re-evaluate the continued operation of two separate accounting systems to support financial reporting for the IST Fund as part of the State's preparation of a strategic plan for its core accounting and administrative functions.

2018-001c Propose an additional dedicated funding source to be committed to the Information Technology Investment Fund to support the anticipated enhancements to critical financial and administrative computer systems identified through the implementation of the strategic plan.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-002 ***(material weakness – repeat finding – 2017-002)***

MEDICAID PROGRAM COMPLEXITY AFFECTS FINANCIAL REPORTING AND OVERALL PROGRAM CONTROLS

The continued and growing complexity of Medicaid program operations adds to the challenge of accurately accounting for all Medicaid program related financial activity within the State's financial statements.

Background: The complexity of the Medicaid program increases each year through new federal regulations, various new State initiatives, and additional challenges resulting from its implementation of a new eligibility system, RIBridges. Medicaid is the State's single largest program activity - representing nearly 40% of the annual budgeted outlays of the State's General Fund. Consequently, the financial aspects of this program are material to the State's financial reporting objectives.

The added complexity and related challenges are mainly attributable to the following initiatives and trends:

- New program initiatives have changed the way services are reimbursed through the program;

- Program changes are often implemented through managed care organizations (MCOs) increasing an already significant segment of Medicaid that is being administered outside of EOHHS's direct financial systems and controls;

- Contracts with MCOs are subject to complex settlement provisions. These settlements are increasingly dependent on data received from the MCOs and require substantial data analysis to evaluate prior to determining if additional payments or recoveries are due and the related accounting recognition of these transactions for financial reporting purposes. EOHHS is largely dependent on contractors to provide the data analysis and tracking of these settlement provisions;

- The State lacks effective auditing and monitoring of MCO financial activity;

- Financial activity relating to Medicaid that is manually accounted for, in total or in part, has increased the risk that certain receivables or liabilities may be omitted from the State's financial reporting processes and not be detected;

- A new eligibility system (RIBridges) has caused uncertainties in eligibility determinations which results in claims processing issues including duplicate MCO capitation payments and the inability to process claims for long-term care providers. This required estimated payments to providers in lieu of actual claims processing.

Criteria: Management is responsible for establishing and maintaining internal control over financial reporting to ensure accurate and complete reporting of transactions in accordance with generally accepted accounting principles.

Condition: Significant Medicaid program activity as detailed above is currently being accounted for external to the systemic controls and processes of normal Medicaid activities. In addition, the State relies on contract services to manually accumulate, evaluate and determine settlements and/or payments relating to these program activities. Due to the length of settlement periods, the extended duration of eligibility system issues, and the volume of transactions being accumulated and evaluated independent of regular program controls, risks relating to inaccurate financial activity and federal compliance have increased.

We noted instances where the State's accounting for financial activity with MCOs was misstated due to errors made in manually accumulating the underlying data on spreadsheets. Additionally, several issues related to RIBridges implementation issues have negatively impacted the MCOs and severely complicated settlement processes between the State and those entities. Significant managed care financial activity (most notably, final contract year settlements) within the Medicaid program remains reliant on claims and financial data submitted by the MCOs and substantial manual analysis by the State's managed care consultant. Controls (procedures employed by EOHHS) over these processes are not deemed sufficient to identify when errors are made in the underlying manual processes.

Cause: Ensuring all financial activity is properly and completely recorded in the State's financial statements is an increasingly complex task. MCO risk and gain share settlements, primary care service increases, certain "reinventing Medicaid" initiatives, and other settlements relating to delayed enrollment of newborns within the RIBridges system were all accounted for external to Medicaid's claims processing system. The financial effect of these settlements and program provisions totaled in the hundreds of millions of dollars. Much of this activity is higher risk from a financial reporting and federal program compliance perspective as it is less subject to systemic controls and instead is accounted for through manual independent processes.

Effect: Potential effects of this control deficiency include unrecorded or inaccurately recorded financial transactions, incorrect reimbursements to providers or managed care organizations, and noncompliance with federal regulations.

RECOMMENDATIONS

2018-002a Evaluate and document control processes to meet the financial reporting objectives for the Medicaid program. Delineate those responsibilities delegated to contractors and how those responsibilities are integrated in the overall control structure.

2018-002b Improve financial oversight of the MCOs as a basis for enhancing program compliance objectives and enhancing data available for financial reporting purposes.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-003	***(material weakness – repeat finding – 2017-008)***

SYSTEM PAYOUTS AND MANUAL DISBURSEMENTS BY THE MEDICAID FISCAL AGENT

The Executive Office of Health and Human Services (EOHHS) authorized in excess of $200 million in system payouts and manual disbursements in fiscal 2018, representing provider advances, payments to managed care organizations for contract settlements and/or non-claims based financial activity, and other program disbursements. The reporting and internal control processes relating to these types of disbursements are manual and external to other established control procedures. Such amounts are not easily identified or quantified by the Medicaid Management Information System (MMIS).

Background: As indicated in Finding 2018-002, a significant amount of Medicaid program financial activity has commenced external to the normal internal control processes of the program (claims processing and adjudication) and is more reliant on manual control processes for determination of payment amounts and recording of financial activity, much of which is performed by consultants.

Advances to nursing home providers (and to a lesser extent, assisted living and hospice providers) during fiscal 2018 (approximately $55 million) were necessary due to significant delays in processing eligibility through the new RIBridges system. These advances were largely made through manual checks issued by the fiscal agent upon FACN authorization by EOHHS. These advances were (1) tracked manually (in Excel) by the fiscal agent for purposes of identifying receivables pending recoupment (2) recorded in the State accounting system by a journal entry prepared by EOHHS, and (3) required additional journal entries to properly report these transactions in the State's financial statements. The level of manual processes employed in the recording of these transactions is characteristic of these types of payments.

Criteria: Management is responsible for establishing and maintaining internal control over financial reporting to ensure accurate and complete reporting of transactions in accordance with generally accepted accounting principles. Such processes should support the validity and accuracy of all payments made by the fiscal agent, the completeness of reported program activity, and to ensure compliance with federal regulations for allowable cost principles and activities allowed or unallowed.

Condition: System payouts and manual disbursements are authorized by EOHHS through the FACN process. EOHHS executes FACN authorizations to the Medicaid fiscal agent for various financial related activities including direction of system payouts and manual disbursements to providers and managed care organizations. FACN authorizations require manual recording and tracking and do not interface into the MMIS. During our audit, we requested a report from the MMIS summarizing system payouts and manual disbursements and discovered that such a report was not currently available through the system. The State's managed care consultant was ultimately able to provide a limited summary of such payments for the fiscal year by querying certain data tables in the MMIS.

During fiscal 2018, we noted that certain advances to home care providers were not allocated to the correct funding source and that certain home care assistance services were being reimbursed through this process instead of being fully adjudicated through the MMIS and subject to the same controls as similar type home care services.

Cause: The significant increase in system payouts and manual disbursements coupled with inadequate reporting and management oversight of these types of payments pose a significant risk to internal control over financial reporting and federal compliance.

Effect: Improper payments, errors or omissions in financial reporting and federal noncompliance are possible effects of this control deficiency.

RECOMMENDATIONS

2018-003a Consider alternatives to issuing system payouts and manual disbursements through the State fiscal agent when possible. When using FACNs to authorize disbursements, utilize a unique identification code to facilitate tracking of FACN disbursements.

2018-003b Develop comprehensive reporting for system payouts and manual disbursements to allow for better oversight and monitoring by EOHHS.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-004	***(significant deficiency – repeat finding – 2017-003)***

COMPREHENSIVE DOCUMENTATION OF THE STATE'S INTERNAL CONTROL STRUCTURE CONSISTENT WITH THE REVISED INTERNAL CONTROL FRAMEWORK

The State can enhance its communication and implementation of a statewide approach to design, document, and monitor its internal control policies and procedures following the principles contained in the revised internal control framework. The State's system of internal controls is intended to safeguard public resources and support accurate financial reporting.

Background: In 2013, the Committee of Sponsoring Organizations (COSO) revised its internal control framework, and the federal Government Accountability Office (GAO) issued an update to its "Green Book", Standards for Internal Control in the Federal Government to tailor this framework to the public environment. The "Green Book" is required for federal agencies as a basis for establishing effective internal control systems; however, it can be useful to other governments when applying the principles contained within the COSO internal control framework.

Since our initial recommendations, the Office of Accounts and Control has allocated resources to facilitate adoption of the revised COSO/Green Book framework and communicate internal control requirements to State departments and agencies. Additionally, the Office of Internal Audit has adopted the revised internal control framework in its planning and evaluates internal processes at State departments and agencies.

Criteria: The State's management has responsibility for the design and operation of internal control. COSO has designed a framework for internal control that consists of three categories of objectives – operations, reporting and compliance – and five components – control environment, control activities, risk assessment, information and communication, and monitoring. An internal control framework, such as COSO and/or the Green Book, provides an overall structure for management to design, document, and monitor its internal control policies and procedures. Both within and outside government, there is an expectation for management to take increasing responsibility for the adequacy of design and operation of an entity's control structure.

Condition: While certain control policies and processes have been documented, opportunity exists for a coordinated effort to implement the revised internal control framework and to reassess the design of its current control structure (both statewide and at the individual agency level) with emphasis on assessing risk and monitoring control results - both essential components of internal control.

For example, a theft of client/patient personal needs funds was recently discovered. The opportunity for theft arose in large part due to the (1) inadequate design of internal control procedures over such funds, (2) insufficient consideration of the potential risk associated with the State acting as custodian for these funds, and (3) inadequate monitoring of internal control processes and procedures.

While the Office of Internal Audit should play a role in the internal control framework, it is agency management that is ultimately responsible for the documentation, communication, and maintenance of an effective internal control structure.

Further efforts are needed to communicate the State's overall objectives and related guidance regarding the internal control framework to departments and agencies. Additional training is necessary to ensure that departments and agencies are adequately documenting their internal control structures to reflect an understanding of its required elements as prescribed by the revised framework.

Cause: Lack of formalized documentation and comprehensive internal control structure throughout State government that complies with an accepted framework such as COSO and/or the Green Book.

The State could also make better use of external system assessments and reviews whenever available. When State systems are operated by external parties or interface with external processing entities; these entities often provide Service Organization Controls (SOC) reports, which typically include identification and testing of key controls within the application or organization. These reports should be considered within the State's documentation of internal controls to ensure that these service organization control reviews are properly mitigating control risks in the State's operations and financial reporting. Additionally, the State must ensure that complimentary State controls being relied on by service organizations are in place and operating effectively.

Effect: Deficiencies in documenting internal control could result in control weaknesses going undetected and internal control policies and procedures from being improperly communicated and administered by management and employees. The absence of risk assessment and monitoring procedures could also lead to significant control deficiencies not being detected and corrected on a timely basis.

RECOMMENDATION

2018-004 Enhance communication and implementation of a statewide approach to design, document, and monitor its internal control policies and procedures following the principles contained in the COSO framework/Green Book. Reassess, document, and monitor control procedures following the guidelines of the internal control framework.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-005	***(significant deficiency – new finding)***

ESCROW LIABILITY ACCOUNT BALANCES

Monitoring of escrow liability account balances needs to be improved and the establishment of these accounts should be more limited to ensure they are only used when that is the proper accounting for such funds.

Background: Various escrow liability accounts have been established within the State's General Fund to account for funds on behalf of others and/or pending distribution. The total of all escrow liability balances at June 30, 2018 was $59.4 million. For escrow liability accounts, the assets and offsetting liabilities are included on the State's General Fund balance sheet but increases/decreases in these balances are not reported as fund revenues and expenditures nor are these balances subject to appropriation or budgetary controls.

Criteria: Timely review and reconciliation of escrow liability accounts is important to ensure that transactions and balances in RIFANS are properly recorded for financial reporting purposes and to exercise appropriate fiduciary control over amounts held for others.

When other state agencies are involved in administering the escrow account activity and maintaining subsidiary detail, they must support the Office of Accounts and Control's reconciliation effort. When other agencies fail to support the reconciliation effort or there are unreconciled variances, the Office of Accounts and Control should have the authority to suspend account disbursements until resolved.

Condition: Timely review and reconciliation of these escrow liability accounts was not performed to ensure that such amounts were accurately and appropriately reflected in the general ledger. Debit balances existed for multiple accounts indicating that disbursements exceeded funds on deposit or activity was mis-posted. Debit balances in escrow liability accounts are indicative of a potential problem and warrant prompt investigation. For multiple escrow liability accounts, reconciliations were not prepared and reviewed prior to the close of the fiscal year and contained unidentified variances.

Additionally, we found escrow accounts were established for two sources of funds within the Office of Attorney General (Volkswagen Settlement and Fingerprint Checks) that should have been established as restricted revenue accounts.

Cause: Monitoring of the escrow liability balances, including timely reconciliation to subsidiary detail or other supporting information, was inadequate. Control procedures need to be reviewed and re-established by the Office of Accounts and Control.

Effect: Control deficiencies over the escrow liability account monitoring and reconciliation process could result in financial reporting misstatements and failure to maintain appropriate fiduciary controls over balances held by the State for others.

RECOMMENDATIONS

2018-005a Complete a thorough review and reconciliation of all escrow liability account balances and make any required adjustments.

2018-005b Review and re-establish appropriate monitoring and reconciliation control procedures for escrow liability account balances. Identify the reconciliation frequency and appropriate data to be used in the reconciliation for each account balance.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2018-006 ***(significant deficiency – new finding)***

CONTROLS OVER FUND BALANCE COMPONENTS WITHIN THE GOVERNMENTAL FUNDS

Controls can be enhanced within the accounting system to better track the distinct components of fund balance required for presentation in the fund level financial statements.

Background: Generally accepted accounting principles require that the financial statements reflect fund balance within the governmental funds in the following categories:

- Nonspendable
- Restricted
- Unrestricted:
  - Committed
  - Assigned
  - Unassigned

These classifications signify fund balance that is earmarked for specific purposes and amounts ultimately available for future appropriation. Such classifications are important not only for financial reporting purposes but also from an operational and budget planning perspective.

Criteria: GASB Statement No. 54 prescribed the required components of fund balance for governmental funds. Fund balance must be arrayed in these required components to demonstrate amounts available to support future governmental operations including any specific restrictions or amounts earmarked by management or those charged with governance.

Building more functionality into the State's accounting system to support fund balance presentation by, for example, tracking fund balance changes by source of funds (e.g., general revenues, federal, restricted, etc.) would enhance controls. Building other reconciliation control processes to substantiate the changes in fund balance components between years would also enhance controls.

Condition: The process of determining the components of fund balance for financial reporting purposes is more of an "offline" process rather than supported by the accounting system. Consequently, there are minimal controls to ensure the completeness and appropriate presentation of fund balance components and to ensure fiscal year activity supports the changes in fund balance components between fiscal years.

Cause: These functionalities have not been programmed into the State's accounting system and other comprehensive reconciliation controls have not been fully established.

Effect: Fund balance components could be misstated in the financial statements. The amount of unassigned fund balance available for appropriation could be over or understated which could result in an inappropriate use of such resources in subsequent budgets.

RECOMMENDATIONS

2018-006a Assess potential fiscal closing procedure enhancements within the RIFANS accounting system to support the presentation of fund balance components.

2018-006b Establish other reconciliation processes to validate the change in fund balance components between fiscal years.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2018-007	***(significant deficiency – new finding)***

POLICY FOR INFORMATION TECHNOLOGY INTERNAL SERVICE FUND

Policies need to be developed and implemented to guide decision-making regarding what types of costs should be paid from the newly established Information Technology internal service fund.

Background: Internal service funds are utilized to distribute centralized costs to various benefitting departments and agencies typically on a usage charge basis. Internal service funds are intended to operate on a break-even basis, recovering all costs through charges to user agencies.

The Information Technology internal service fund was created during fiscal 2018 to distribute various centralized information technology costs of the State to departments and agencies. The costs included in the internal service fund are generally for costs of the Division of Information Technology (Department of Administration) including the operations of the State Data Center.

Criteria: Internal service funds are created as a means to distribute common costs to multiple departments and agencies. Policy guidelines should be established to determine when and how the costs of acquiring and developing computer hardware, systems, and software should be accounted for within the Information Technology internal service fund. Internal service funds cannot be used to defer the recognition of costs that should otherwise be reflected in other funds. Since internal service funds are intended to operate on a break-even basis, the costs to acquire capital items, which will be recovered through depreciation charges, are typically financed with sources external to the internal service fund (e.g., advances or loans from other funds).

Condition: During fiscal 2018, a final contract settlement payment to the vendor developing a new Registry of Motor Vehicles system (RIMS) was paid from the internal service fund and capitalized with the intent to recover the costs through depreciation charges to the Division of Motor Vehicles over five years. This system benefits only one agency and is not a shared cost and none of the other costs of the system development had been reflected in the internal service fund. The intent of the initial recording was to provide a budgetary benefit by spreading the cost over multiple years. We proposed an audit adjustment to move the costs out of the internal service fund, which was accepted and reflected in the fiscal 2018 financial statements.

This occurrence in fiscal 2018 highlights the need to establish policies to guide how and what types of information technology related costs are reflected in the internal service fund. For example, it may be appropriate for costs to acquire a centralized computer application (e.g., human resources/payroll) that is used by all departments and agencies to be capitalized within the internal service fund and then depreciated and charged back to user agencies over the estimated life of the system following established accounting policies. Similarly, costs to upgrade or replace equipment and infrastructure at the State's Data Center should be capitalized and distributed to all user agencies. Costs to develop a system that is used by only one agency and has a dedicated source of funding may be less appropriate to record and capitalize within the internal service fund as there is no need to distribute the costs to multiple agencies.

Cause: The internal service fund was newly established in fiscal 2018 and comprehensive policies have not been developed and implemented.

Effect: Expenditures within the operating funds of the State (e.g., General Fund) could be misstated due to inappropriate use of the Information Technology internal service fund.

RECOMMENDATION

2018-007 Develop policies consistent with the State's accounting policies and generally accepted accounting principles to guide decision making regarding what types of costs should be paid from the newly established Information Technology internal service fund.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-008	***(significant deficiency – repeat finding – 2017-004)***

GENERAL LEDGER ACCESS COMPROMISES SEGREGATION OF DUTIES FUNCTIONS WITHIN THE OFFICE OF THE GENERAL TREASURER

Certain duties performed by the Office of the General Treasurer were not sufficiently segregated during fiscal 2018 which resulted in control deficiencies.

Background: During fiscal 2018 and prior years, we observed numerous journal entries initiated and approved by Treasury personnel that were not consistent with the appropriate level of segregation of duties over cash receipts and disbursements thereby weakening controls.

Treasury has enhanced segregation of operational (accounting, funds transfer, bank reconciliation, etc.) responsibilities in response to audit recommendations and as part of staff reorganizations, however, general ledger access and delegation of other operating responsibilities within Treasury still results in control weaknesses due to insufficient segregation of duties. There are additional organizational and procedural changes needed to further segregate certain accounting and reconciliation functions within Treasury.

Criteria: Appropriate controls over cash receipts and disbursements require segregation of duties. The functions of authorizing and recording transactions should be totally separate from functions related to the disbursement and movement of funds, cash receipts, and reconciliation of bank and book balances.

Condition: The Treasury unit initiates and approves certain accounting transactions that, from a control perspective, is inconsistent with appropriate segregation of duties since the transactions are authorized by individuals also having reconciliation oversight and approval. Certain transactions result in the movement of funds without authorization emanating from the accounting system.

Treasury took corrective actions at the start of fiscal year 2019 to reorganize certain functions with the goal of better segregating key duties. The control deficiency existed during fiscal 2018 but has been addressed subsequently and therefore no recommendation is included herein.

Cause: The lack of a full implementation of the State's RIFANS system has resulted in the Office of the General Treasurer performing certain accounting transactions to meet timelines for funds transfers and to ensure the timely recording of transactions generated by subsidiary accounting systems within other State agencies.

Corrective actions include reorganizing the Treasury unit that is responsible for bank reconciliations, cash receipt approval, and other accounting and banking related activities into two distinct units without overlapping responsibilities to further segregate duties and streamline the organizational reporting hierarchy and assignment of functional responsibilities. The Office of Accounts and Control should be established as the final approver on certain transaction types consistent with the goal of segregating the accounting and funds movement functions.

Effect: Lack of adequate segregation of duties could result in unauthorized transactions, and increases the risk of material misstatement due to fraud or error.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2018-009	***(significant deficiency – repeat finding – 2017-005)***

MONITORING RIFANS ACCESS PRIVILEGES AND AGENCY APPROVAL HIERARCHIES

The State can enhance certain system access controls within the RIFANS statewide accounting system.

Background: Authorizing and monitoring access to RIFANS, the State's centralized accounting system, is a key control over financial reporting. The following are three distinct, but interrelated areas where the State can improve its monitoring of RIFANS access privileges by implementing reporting functionalities that allow for the periodic review of RIFANS user and administrator access:

RIFANS "Super Users" – Activities of individuals with system administrator or "super user" roles are logged but not reported and reviewed. These individuals have unlimited access to RIFANS functions and data. Consequently, any RIFANS transactions or activity initiated by system administrators should be monitored. The Division of Information Technology's (DoIT) policies and procedures require the activities of privileged users (system administrators) to be logged by the system and reviewed for propriety by assigned personnel.

Agency Hierarchies – Access roles for all RIFANS users are controlled through unique passwords. These roles, which are assigned based on job functions and responsibilities, permit access to various system capabilities. Agency hierarchies permit specific transaction types and dollar authorization limits. Other transaction-specific authorization controls are managed through workflow directories within RIFANS. The Office of Accounts and Control (Accounts and Control) is responsible for the design and control of system access by RIFANS users. This "blueprint" of the RIFANS control structure is periodically documented through hierarchies detailing access and approval flows for each department or agency.

The State created and implemented the use of a report designed for monitoring of changes to the agency hierarchies and other system access but did not allow for comprehensive "super user" access monitoring during fiscal 2018.

RIFANS Delegated Authority – RIFANS users may delegate their authority to other users in certain situations (e.g., vacation rules). The State implemented a policy that restricts employees from delegating their authority to others with a lower level of authority and requiring notification of the delegation to Accounts and Control in certain circumstances.

Criteria: Controls over system access by users and system administrators is critical to ensure that transactions in RIFANS are properly authorized and recorded for financial reporting purposes. The State could improve controls over system administrator access by either a) developing reports that specifically report on their system access and daily activities within the system and/or b) developing reports that detail when changes are made to critical data within RIFANS.

Condition: The State's lack of adequate monitoring of user and administrator access represents a collective weakness in internal control over financial reporting.

In fiscal 2018, the State created and used a report designed for monitoring changes to the agency hierarchies, authorization thresholds, and other systemic changes. While this report has been utilized by Accounts and Control to enhance controls over transaction approvals, there were no procedures in place requiring the periodic review of the report by DoIT IT Security personnel who possess sufficient knowledge in IT security protocols to properly monitor all "super user" activity. To this end, while the report has been designed adequately to monitor RIFANS access and other key areas of concern, further refining of the report would be required to capture all "super user" activity on the system.

As noted above, Accounts and Control authorizes changes to system access, but the changes are affected by authorized individuals in the Division of Information Technology that have the system access to modify or expand RIFANS access. In fiscal 2018, the resulting changes were not consistently monitored to ensure they were established consistent with Accounts and Control's approval or that other unauthorized changes were not made. While the report was used to monitor accounts payable module access; the report was not utilized throughout the fiscal year for general ledger agency hierarchies.

Accounts and Control's monitoring of delegated RIFANS access authority has been limited thus far by the lack of a system reporting functionality. Consequently, monitoring is ineffective in determining whether any delegation of authority is consistent with policy or if the delegation is more than temporary. The State should consider reporting functionalities that facilitate monitoring of delegated authority to ensure compliance with existing policies.

Cause: The State did not have sufficient reporting to allow for "super user" access monitoring during fiscal 2018.

The use of reports designed to identify and review changes made to agency hierarchies were only partially implemented during fiscal 2018 due to difficulties in tailoring the information provided to meet their intended needs. Additionally, this reporting function does not provide any oversight of delegated authority, only long-term changes to system access.

Effect: Potential for unauthorized transactions being recorded in RIFANS.

<u>RECOMMENDATIONS</u>

2018-009a Review activities of "super-users" (system administrators) on a scheduled basis to ensure that additions, modifications and deletions initiated by them are appropriate.

2018-009b Improve controls over RIFANS access by ensuring consistent use of the reporting function and by continuing to explore reporting functionalities that would allow for periodic monitoring of noncompliance with policies relating to delegated user access.

<u>Auditee views</u>: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2018-010 ***(significant deficiency – repeat finding – 2017-006)***

COMPREHENSIVE GENERAL LEDGER CONTROLS OVER RECEIVABLES

Statewide accounting controls over receivables should be enhanced.

Background: Revenues are collected at many points throughout the State and, in many instances, due to volume and complexity (e.g., tax revenues), independent systems must be maintained to control and account for those revenues and related receivables.

Currently, general ledger balances are adjusted at fiscal year-end to match the summary balances reported by the various revenue collecting agencies. Long-term receivables, which are included in the State's government-wide financial statements, are typically recorded and then reversed each year without a "permanent" general ledger or subsidiary ledger detail record of such amounts.

The lack of an integrated revenue and receivables functionality within the RIFANS accounting system requires that receipts/revenue be recorded via journal entry transactions (directly to the general ledger). Typically, receipts/revenue would be recorded in a separate module with expanded functionality that would interface with and post information to the general ledger.

The Office of Accounts and Control has added certain receivable categories to an existing revenue/receivables module that is part of RIFANS. However, since that module is more designed to track receivables on a unique customer basis, it does not easily match the need to control receivables within the State's various subsidiary systems (e.g., tax receivables). Other options need to be considered to meet the State's comprehensive control objectives for receivables, given the complicated and decentralized nature of revenue collection points throughout the State.

Criteria: Controls are enhanced when there are effective general ledger controls over all receivable balances with periodic reconciliation to detailed subsidiary accounts receivable systems. Additions and reductions (receipts) of receivables should be recorded in aggregate at the general ledger level with the detailed recording at the customer/taxpayer level within the various subsidiary receivable systems.

Condition: The State must enhance its comprehensive general ledger controls over amounts owed to the State. Receivable balances are generally maintained by the revenue-collecting department or agency (e.g., Division of Taxation, Courts, and Department of Environmental Management). Summary balances are reported only annually to the Office of Accounts and Control for inclusion in the State's financial statements. The effectiveness of receivable recording at year-end is dependent upon agencies fully reporting balances to the Office of Accounts and Control and procedures performed by Accounts and Control to identify possible omissions. This manual process provides a level of compensating control but is susceptible to omission. Accounting and monitoring controls over the State's receivables in aggregate are limited.

Cause: Inadequate general ledger controls over accounts receivable.

Effect: Potential for misstatement or omission of accounts receivable and related revenue in the State's financial statements.

RECOMMENDATION

2018-010 Explore options to enhance statewide general ledger controls over receivables.

Auditee views: ***The auditee concurs with this finding – see Corrective Action Plan in Section E.***

Finding 2018-011 ***(significant deficiency – repeat finding – 2017-007)***

FORMAT OF ENACTED BUDGET TO FACILITATE BUDGETARY CONTROL AND REQUIRED BUDGETARY FINANCIAL REPORTING

The form and content of the enacted State annual operating budget should be enhanced to facilitate alignment with the specific funds used to account for activities and to provide more effective planning and monitoring tools.

Background: The State's financial statements include budgetary schedules to compare budgeted to actual results. The State must prepare separate budgetary comparison schedules on a fund basis while the budget is enacted on a comprehensive, state-wide basis, encompassing multiple funds. Budgetary comparison schedules are included in the State's financial statements for the General Fund, Intermodal Surface Transportation Fund, and Temporary Disability Insurance Fund.

Criteria: Generally accepted accounting principles require budgetary comparison schedules be included in governmental financial statements. Effective budgetary control requires continual measurement of actual to budgeted amounts. The format of budgets should reflect current operations and provide meaningful information to measure performance.

Condition: Because the enacted budget is presented on a comprehensive, state-wide basis, significant effort is required to disaggregate the budget data for comparison with the fund level information reported in the State's financial statements. In addition, the process to extract relevant data from the accounting system to prepare the budgetary comparison schedules should be improved and streamlined to ensure consistency with the enacted budget and amounts reported in the fund financial statements.

Net income from the Lottery is a general fund "revenue" source for the State budget; however, the enacted budget also includes certain operational expenses of the Lottery. This is an example of a budget presentation component that doesn't align with financial reporting practices. Inclusion of a separate proforma operating statement for the Lottery in the annual budget which supports the budgeted net income transfer to the General Fund may be more appropriate.

Transportation activities included in the annual budget are so highly summarized (e.g. infrastructure-engineering) that it limits effective analysis of the budget as a financial compliance and management tool. Transportation funding and activities have significantly changed in recent years without changes in the budget presentation. The enacted budget does not include all the transportation related activity which is now accounted for within five separate special revenue funds. For financial reporting purposes, the five funds are combined into the IST Fund. A complete transportation budget which corresponds with all activity reported in the IST Fund isn't prepared.

Including fund information within the enacted budget would enhance required budgetary reporting. Other modifications to the format and content of the budget could enhance the effectiveness of the budget as a financial management tool.

Cause: The State's annual enacted budget is prepared on a comprehensive basis by governmental function which encompasses multiple funds. Generally accepted accounting principles require budgetary comparison schedules to be prepared on a fund basis and must be reconciled to fund financial statements. The format of the budget and the budgetary comparison schedules required for financial reporting purposes are not aligned which adds complexity to using the enacted budget information to ensure budgetary compliance and to prepare reports demonstrating budgetary compliance.

The format of the budget information for transportation activities is too highly aggregated and hasn't been updated to reflect current operations and to serve as a meaningful planning tool.

Effect: Preparation of required budgetary comparison schedules demonstrating budgetary compliance is more complicated than necessary which also weakens controls over the preparation of the schedules. The budgetary comparison schedule preparation process is prone to error and requires significant year-end effort to ensure that the information is correct and corresponds to financial statement amounts and the enacted budget. Additionally, the current format of the operating budget and the budgetary comparison schedules limits the effectiveness of the information provided as planning and monitoring tools.

RECOMMENDATIONS

2018-011a Improve the presentation of the budget amounts for transportation activities. Consider changes in the level of detail and include all transportation activity.

2018-011b Modify how the Lottery operations are included in the annual budget by including a separate pro forma operating statement supporting the net transfer to the General Fund.

2018-011c Include fund information within the budget to facilitate recording the budget in the accounting system and preparing budget-to-actual comparisons.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-012	***(significant deficiency – repeat finding – 2017-010)***

MONITORING RESPONSIBILITY FOR FUNDS ON DEPOSIT WITH FISCAL AGENT

Responsibility for monitoring the investment activity and other compliance aspects of funds on deposit with a fiscal agent (trustee) should be vested with the Office of the General Treasurer.

Background: At June 30, 2018, $346 million was on deposit with fiscal agents (trustees). These amounts generally are bond or certificate of participation proceeds pending disbursement for projects. Amounts are invested pending disbursement. At June 30, 2018, investments included government debt securities, commercial paper, certificates of deposit and money market funds. Monitoring responsibility for these amounts is unclear and fragmented.

Criteria: The safety and liquidity of investments made from undisbursed debt proceeds, as well as compliance with permitted investment limitations, should be actively monitored. The Office of the General Treasurer has similar responsibilities for other State funds and would be the most obvious choice to effect appropriate oversight of these balances.

Condition: Responsibility among various State agencies for monitoring investment activity for funds on deposit with a fiscal agent is unclear and consequently these balances are not adequately monitored. For example, a significant uninvested and uninsured cash balance within one of the trustee accounts was not observed or explained.

Cause: The Office of the General Treasurer generally has responsibility for investment of State funds. Because these amounts are held by trustees and invested independently, they are not included within the oversight of the Office of the General Treasurer. No other State agency has been designated specific responsibility.

Effect: Funds held by fiscal agents are insufficiently monitored to ensure safety, liquidity and compliance with debt related covenants.

RECOMMENDATION

2018-012 Assign responsibility for oversight and monitoring of funds on deposit with fiscal agents to the Office of the General Treasurer.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-013	***(significant deficiency – repeat finding – 2017-011)***

OFFICE OF MANAGEMENT AND BUDGET – RESPONSIBILITIES FOR OVERSIGHT OF FEDERAL GRANT ACTIVITY

Various responsibilities, related to the oversight of federal grants and assigned to the State's Office of Management and Budget (OMB), have not been fully addressed operationally.

Background: The sections of the Rhode Island General Laws creating the Office of Management and Budget (OMB) within the Department of Administration, delineate various responsibilities to the OMB including those related to oversight of the State's federal grant programs. We have highlighted in past audits, through conduct of the annual Single Audit of the State, that the administration of federal programs is almost exclusively the purview of the departments and agencies - there are few uniform statewide grant administrative procedures and little statewide oversight of federal grant activities. Federal grants support approximately 40% of State operations accounted for within the General Fund.

The creation of the OMB was in part intended to address those concerns by vesting responsibility for oversight of federal grant activities within a group outside of the day-to-day administration of grant programs.

Criteria: Certain of the specific responsibilities of OMB, as contained in the enabling statute, are highlighted below:

§ 35-1.1-5 Federal grants management. – (a) The office of management and budget shall be responsible for managing federal grant applications, providing administrative assistance to agencies regarding reporting requirements, providing technical assistance and approving agreements with federal agencies pursuant to § 35-1-1. The director shall:

(2) Ensure that the state establishes and maintains statewide federally-mandated grants management processes and procedures as mandated by the federal Office of Management and Budget;

(6) Assist the state controller in managing and overseeing the disbursements of federal funds in accordance with § 35-6-42;

(7) Assist the state controller in the preparation of the statewide cost allocation plan and serve as the monitoring agency to ensure that state departments and agencies are working within the guidelines contained in the plan; and,

(8) Provide technical assistance to agencies to ensure resolution and closure of all single state audit findings and recommendations made by the Auditor General related to Federal funding.

Condition: Opportunities exist to enhance the role of the OMB in overseeing the operation of the State's many federally funded programs consistent with the intent of the enabling statute. Higher-level monitoring of federal grant activities is necessary to ensure overall compliance with federal requirements and to prompt timely corrective action when warranted. There are a number of recurring findings related to the administration of federal programs included in our Single Audit Report that remain unresolved.

We acknowledge OMB's efforts to provide training on the new federal regulations affecting all federal awards (Uniform Guidance) and vendor vs. subrecipient determinations. Additionally, OMB is implementing grants management software in a phased approach beginning in fiscal 2019.

Cause: Federal grant administration has generally been decentralized and performed at the department level without statewide monitoring or uniform grant administration procedures.

Effect: Inefficiencies in grant administration, weakened controls over federal programs, and higher risk of noncompliance with federal program requirements.

RECOMMENDATION

2018-013 Enhance the operational activities of the OMB to comply with the enabling statute and to meet the need to provide centralized monitoring of federal programs, which constitute a material portion of the State's overall activities.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-014	***(material weakness – repeat finding – 2017-012)***

CONTROLS OVER FEDERAL PROGRAM FINANCIAL ACTIVITY

The State can improve controls over recording federal revenue to ensure (1) amounts are consistent with the limitations of grant awards from the federal government and (2) claimed expenditures on federal reports are consistent with amounts recorded in the State's accounting system. Further, statewide accounting functionalities should be implemented to support time reporting/payroll, grants management, and cost allocation – all functionalities that are integral to the management and control over federal programs.

Background: Federal programs represented 40% of fiscal 2018 General Fund expenditures. Financial reporting risks include categorizing expenditures as federally reimbursable when grant funds have either been exhausted or the expenditures do not meet the specific program limitations. Further, the State can improve its overall centralized monitoring of federal program operations to ensure compliance with federal requirements.

Some federal grants are open-ended entitlement programs where the federal government will reimburse the State for all allowable costs incurred under the program. Other federal grants are limited by a specific award amount and grant period. These grant periods are often for the federal fiscal year and are not aligned with the State's fiscal year.

Criteria: Federal revenue and expenditures recorded by the State must be consistent with the limitations of grant awards from the federal government and claimed expenditures on federal reports must be consistent with amounts recorded in the State's accounting system.

Time reporting/payroll, grants management, and cost allocation should be performed consistently through statewide processes that are subject to enhanced control and oversight to ensure adherence to federal program requirements and to support the State's financial reporting objectives.

Condition: Knowledge of grant requirements, spending authorizations, and limitations on reimbursable expenditures all rests with departmental managers who administer the federal grant programs. The Office of Accounts and Control, in preparing the State's financial statements, relies primarily on the coding of expenditures (by funding source – federal) within the RIFANS accounting system. All expenditures recorded in federal accounts are considered reimbursable from the federal government and federal revenue is recorded to match those expenditures. From an overall statewide perspective, controls over financial reporting are ineffective to ensure that all federal expenditures are reimbursable and federal revenue is recognized appropriately.

The Office of Accounts and Control requires departments to complete a Federal Grants Information Schedule (FGIS) to reconcile RIFANS program activity with amounts drawn and claimed on federal reports. The FGIS process is not effective and there is no other statewide control measure to ensure that grant expenditures do not exceed available award authority. During fiscal 2018, the Office of Accounts and Control adjusted the funding source for certain expenditures within the Department of Labor and Training from federal to general revenue in recognition of insufficient grant awards to support collection of the federal receivable. The total amount adjusted was $3.6 million.

The State's RIFANS accounting system does not meet the State's needs in three important and interrelated areas – time reporting/payroll, grants management, and cost allocation – all functionalities that are integral to management of federal programs. These functions are currently performed independent of RIFANS and generally through multiple departmental systems - most of which are duplicative and utilize old and sometimes unsupported technology.

For example, during fiscal 2017 and 2018, the results of a newly developed cost allocation plan developed by a consultant for the Department of Human Services were not being used due to imprecision in time and effort inputs from random moment time studies. This wasn't known or evaluated at a statewide level to assess the impact on the timing of federal reimbursement and amounts reported on federal reports and the State's financial statements.

Cause: Sufficient controls have not been implemented within the statewide accounting system to ensure amounts are consistent with the limitations of grant awards from the federal government and claimed expenditures on federal reports are consistent with amounts recorded in the State's accounting system.

Statewide accounting functionalities that support time reporting/payroll, grants management, and cost allocation have not been implemented for federal programs. Because these functionalities are lacking in RIFANS, a high volume of manual accounting entries, supported by data derived from various departmental cost allocation processes and departmental systems, is required to distribute direct and indirect costs to various programs and activities.

Effect: Federal revenue could be overstated and not detected, errors could occur due to the complexity in cost allocation to federal programs and delays in federal reimbursement can occur due to the time required to distribute costs to federal programs.

RECOMMENDATIONS

2018-014a Improve functionality within the statewide financial systems to facilitate federal grant administration (grants management, cash management and cost allocation).

2018-014b Build statewide processes over federal grant administration within the Office of Management and Budget to supplement accounting controls within the RIFANS accounting system.

***Auditee views:* The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-015 ***(significant deficiency – repeat finding – 2017-022)***

DIVISION OF INFORMATION TECHNOLOGY – DISASTER RECOVERY TESTING AND OFF-SITE STORAGE OF BACKUP FILES

The State resumed tests of its disaster recovery plan during fiscal 2018; however, not all major systems were sufficiently tested.

Background: Periodic tests of the disaster recovery plan are a vital component of an overall business continuity plan to increase the likelihood that critical systems can be restored should a disaster disable or suspend operations at the State's data center. DoIT has a designated disaster recovery facility in New Jersey (operated by a vendor).

Criteria: Industry best practices stipulate that disaster recovery testing be performed twice a year to accommodate the ever-changing systems environment. The State should perform a full disaster recovery test at least annually. Also, off-site storage of backups should be geographically diverse enough to successfully recover from a regional disaster.

Condition: The State resumed tests of its disaster recovery plan during fiscal 2018 after such tests were not performed in the prior three years; however, not all major systems were sufficiently tested. The fiscal 2018 test of the disaster recovery plan did not include the DMV RIMS system. Additionally, due to time limitations, in some instances the system and database were recovered, but there was insufficient time to fully validate the database or application.

Cause: DoIT should have ensured the required amount of time was allotted to test all systems thoroughly.

Effect: Incomplete disaster recovery testing reduces the assurance that all mission critical systems can be restored, should a disaster disable or suspend operations.

RECOMMENDATION

2018-015 Ensure the off-site disaster recovery tests at the State's designated disaster recovery site include all major applications at least annually.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-016 ***(material weakness – repeat finding – 2017-023)***

INFORMATION TECHNOLOGY (IT) SYSTEMS – PROGRAM CHANGE CONTROLS

The State does not follow uniform enterprise-wide program change control procedures for the various IT applications operating within State government. This increases the risk that unauthorized or inappropriate changes could be made to IT applications without detection.

Background: Program change controls are a critical component of any IT control environment, which ensures that only authorized changes are made to programs (after adequate and sufficient user acceptance testing) before being placed into a production environment. Additionally, program change control procedures prevent and detect unauthorized program modifications from being made.

Almost all custom-developed computer applications require changes and/or updates throughout their production lifecycles. Consequently, these customized, home-grown applications require a formalized change management system to ensure that only authorized changes are made.

Criteria: The State's change management process should be standardized so that all movement of code, changes made, testing, acceptance, and implementation provide management with a tracking history and record of approvals. This leads to consistent outcomes, efficient use of resources, auditability, and enhanced integrity of the application systems, which flow through the process. Automated tools help control this process and make the process consistent, predictable, repeatable and aids in the reduction of "human error" in the process.

DoIT should develop procedural guidance that details the correct use of change management software and mandated internal control practices and procedures, thus ensuring a documented, monitored, auditable, and repeatable process.

Condition: The State lacks a uniform enterprise-wide program change control management process for the various IT applications operating within State government. This had led to inconsistent methods, as well as noncompliance and circumvention of DoIT's change control policy and procedures. In a number of instances, we noted no automated change control system to substantiate that only authorized and proper changes had been implemented.

Cause: Various methods are used to control program change management which rely mostly upon manual and automated procedures that incorporate emails, memorandums and other paper-based forms to document application changes. In response to prior audit recommendations made since fiscal 2007, DoIT has attempted to implement change control software.

Effect: A lack of a uniform enterprise-wide program change control management process increases the risk that unauthorized or inappropriate changes could be made to IT applications without detection.

RECOMMENDATIONS

2018-016a Develop and implement procedures detailing specific requirements for program change control and disseminate and train DoIT support staff in its proper execution.

2018-016b Determine the appropriate combination of operational, procedural and/or technical adjustments required to use change management software to result in adequate program change control for the entire enterprise.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2018-017 ***(significant deficiency – repeat finding – 2017-024)***

INFORMATION TECHNOLOGY – COMPREHENSIVE INFORMATION SYSTEMS SECURITY POLICIES AND PROCEDURES AND PERIODIC RISK ASSESSMENTS

The State can enhance its enterprise-wide security policies and procedures and communication of these policies and procedures with State agencies. Additionally, the State can enhance its ongoing security posture by periodically performing a risk assessment to identify if mission critical systems comply with the policies and procedures.

Background: The Division of Information Technology (DoIT) within the Department of Administration (DOA) has responsibility for the State's varied and complex information systems. This includes ensuring that appropriate security measures are operational over each system and the State's information networks. Information security is critically important to ensure that information technology dependent operations continue uninterrupted and that sensitive data accumulated within State operations remains secure with access appropriately controlled.

A cyber-security review which included a comprehensive risk-assessment of information technology security was completed during fiscal 2018 by an external vendor.

Criteria: The oversight and management of the State's information security program relies upon the implementation of DoIT's comprehensive information systems security plan, which includes detailed policies and procedures that are designed to safeguard all the information contained within the State's critical systems. The State needs to ensure its IT security policies and procedures are current and well communicated. Due to the number and complexity of systems within State government, a risk-based approach should be employed where those systems deemed most critical, or most at risk, are prioritized. Assessments of compliance for all critical IT applications should be performed on a periodic basis.

Condition: The State has updated and created new policies and procedures for its critical information systems; however, it has lagged in approving, communicating, and implementing these policies. Further, the State has not implemented a practice of conducting security risk assessments on a cyclical basis to determine whether its IT systems comply with State IT security policies and procedures.

The State should make continued use of external system assessments and reviews to complement on-going risk assessment monitoring. In many instances, State systems are operated by external parties or interface with external processing entities. These entities often provide Service Organization Controls (SOC) reports, which typically include identification and testing of key controls within the application or organization. A number of these reports are available and should be accumulated and reviewed within DoIT as part of a risk-based approach to assessing and ensuring IT security compliance. This may also assist in broadening the monitoring of the State's many systems considering the minimal resources allocated to this function.

Cause: The State maintains IT security policies and procedures on DoIT's website. However, they are not updated and appropriately communicated with State agencies.

Policy and practice to perform comprehensive information security risk assessments is improving but can be further enhanced.

Effect: Critical systems may be exposed to security vulnerabilities which may not be detected timely due to insufficient commitment to periodic comprehensive information security risk assessments.

RECOMMENDATIONS

2018-017a Continue to update IT security policies and procedures to ensure such policies and procedures conform to current standards and address all critical systems security vulnerabilities.

2018-017b Contract for the performance of IT security compliance reviews and accumulate and make use of available Service Organization Control reports to extend IT security monitoring of critical systems.

2018-017c New information systems or significant system modifications should be subjected to a formalized systems risk assessment security certification by DoIT or an external IT security consultant prior to becoming operational.

2018-017d Prepare a corrective action plan that prioritizes significant system security risks with the goal of achieving compliance with DoIT's formalized system security standards for all significant State systems.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-018	***(significant deficiency – repeat finding – 2017-013)***

DEPARTMENT OF REVENUE – DIVISION OF TAXATION – DATA USED TO CALCULATE SIGNIFICANT ESTIMATES

Historical data used to support significant financial reporting estimates for tax revenues should be reassessed periodically to ensure continued validity. Enhanced data for multiple tax years is accumulating within Taxation's STAARS system to refine and support those estimates going forward.

Background: The Office of Accounts and Control utilizes various Division of Taxation generated information to estimate financial statement revenue accruals, revenue refunds, and allowances for uncollectible and unavailable taxes receivable. The Division's new STAARS system can provide enhanced data reporting on which to build estimates. Many of the estimates are derived from multi-year historical statistics – care must be exercised in using a combination of legacy data and STAARS to ensure the resulting estimates are still valid. Regardless, the data and assumptions underlying all significant estimates should be reassessed periodically to ensure they are valid and appropriate for the circumstances.

As the system accumulates data for multiple tax years, STAARS data can be used to refine and support certain estimates. The Office of Accounts and Control and Division of Taxation continue to enhance their use of STAARS data as more information becomes available in each succeeding fiscal year.

Criteria: Accounting estimates should be continually reassessed and reflect the most current and relevant data available.

Condition: Many of the estimates reflect historical patterns experienced over multiple tax years. Due to the recent implementation of STAARS, historical data continues to accumulate to data to support development of financial reporting estimates. In some instances, data from the previous tax systems is combined with STAARS data which affects consistency. Over time, the STAARS system should provide better data to support collection, final return and refund estimates for each tax type. The Division of

Taxation continues to refine its use of data within the system for operational and financial reporting objectives.

Cause: STAARS historical data for multiple tax years continues to accumulate but has been insufficient to fully support all the estimates needed for financial reporting purposes.

Effect: The estimates used to account for tax revenues could be insufficiently supported by current tax filing and tax collection experience.

RECOMMENDATION

2018-018 Continue to utilize newly available historical data contained in STAARS to develop significant tax revenue and refund accrual estimates for financial reporting purposes. Refine estimates where necessary to reflect the enhanced data provided by STAARS.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-019	***(significant deficiency – repeat finding – 2017-015)***

DEPARTMENT OF REVENUE – DIVISION OF TAXATION – STAARS FINANCIAL REPORTING IMPACTS

Processing functionalities within the Division of Taxation's STAARS system result in a volume of returns held in suspense pending resolution. This complicates financial reporting estimates due to the uncertain effect of returns that had not fully processed at fiscal year end.

Background: The Division's State Tax Administration and Revenue System (STAARS) system functionalities suspend returns from complete processing when any variety of conditions exist. A significant volume of returns was held in suspense (posted exceptions report) at June 30, 2018. Due to the relative "newness" of the system, a higher volume of returns in suspense is likely as processing issues are resolved and additional system experience is gained.

Criteria: Revenue recognition for financial reporting purposes involves estimating the effect of returns received but awaiting full processing to determine the likely revenue impact. Other revenue estimates are developed on historical filing patterns which are impacted by complete processing of returns and system data for a tax year.

Condition: For returns held in suspense at fiscal year end, the classification of cause for suspension is not easily used as a basis for estimating the revenue impact (i.e., result in no revenue impact, a refund liability or a receivable) upon final processing. Manual intervention is typically required to clear system processing edits and exceptions - personnel resources have been challenged due to system implementation to meet the peak demand.

We observed certain returns held in suspense at June 30, 2018 with large dollar amounts. Upon further review, the amounts listed were not an appropriate indication of taxes owed or refunds due which supports the claim that suspended return information has to be carefully evaluated when considered for financial reporting purposes.

As use of the system matures, the Division is fine-tuning processing functionalities and ordering and prioritizing employee tasks to manage and lessen the volume of suspended returns pending full processing. The Division is now better utilizing the system functionalities to prioritize worker efforts based on seasonal demands and other operational considerations.

Cause: STAARS employs higher-level edits for more effective and controlled processing; however, the volume of returns pending resolution/clearance can be significant. The Division can continue to increase its use of advanced analytical tools, in concert with the STAARS development vendor, to (1) prioritize resolution efforts for items included on the posted exceptions report, and (2) apply "system" resolutions to groups of returns to reduce the number of returns requiring staff intervention. Lastly, staffing levels must be sufficient to meet peak demands and avoid processing backlogs.

Effect: Estimates of the impact of returns held in suspense may be inaccurate and could affect revenue amounts used for financial reporting.

RECOMMENDATIONS

2018-019a Continue to utilize advanced analytical tools to (1) prioritize resolution efforts for items included on the posted exception report, and (2) potentially apply a system resolution to groups of returns to reduce the number of returns requiring staff intervention.

2018-019b Assess and add additional staff as needed to meet peak demands, resolve existing backlogs, and prevent future processing backlogs.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2018-020 *(material weakness – repeat finding – 2017-021)*

CONFIDENTIAL FINDING AND RECOMMENDATION

A finding concerning the administration of the personal income tax system was communicated confidentially due to the potential impact on taxpayer compliance.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2018-021 *(significant deficiency – new finding)*

DEPARTMENT OF REVENUE – DIVISION OF TAXATION – PRESENTATION OF CERTAIN COSTS TO IDENTIFY AND ENHANCE THE COLLECTION OF UNPAID TAXES

The Division engaged its system development vendor to perform a series of data-matches in order to increase billings for unpaid taxes and related collections (revenue). The cost for these specific tasks were reflected in the accounting system as reductions of revenue rather than expenditures.

Background: The Division of Taxation amended its contract with a vendor to perform various data-matches in order to increase billings for unpaid taxes and related collections (revenue). A baseline of collections was established, and the vendor was to receive a percentage of collections over this base-line as compensation.

Criteria: Revenues and expenditures should be reflected on a gross, rather than net, basis.

Condition: The vendor costs for tasks specific to the identification and subsequent collection of incremental tax revenues were reflected as revenue reductions (contra-revenue) rather than expenditures in the State's accounting system. The first payments were processed through the tax refund (contra-revenue) accounts. An escrow liability account was subsequently established which was funded with contra-revenue transfers. The total amount of tax collection related expenditures reflected as contra-revenue was $2.2 million during fiscal 2018.

When expenditures are reflected as contra-revenue the actual amount of taxes collected is distorted as well as the actual amount of expenditures. Transparency is diminished, and budgetary controls are by-passed.

Cause: The Division of Taxation intended to correlate the incremental revenue with the incremental contract expenditures for the cost of identification and subsequent collection.

Effect: Tax revenues and expenditures were each understated by $2.2 million ($0 net effect on operating results).

RECOMMENDATION

2018-021 Record all costs of tax administration and collection as expenditures rather than reductions to revenue.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-022 **_(significant deficiency – repeat finding – 2017-017)_**

DEPARTMENT OF REVENUE – DIVISION OF TAXATION – STAARS SYSTEM ACCESS

STAARS system user access rights need to be assessed and tailored to ensure access is consistent with and appropriate for each employee's responsibilities. User access rights should be modified timely when responsibilities change and terminated immediately when terminating employment.

Background: User access roles control the specific functions that an employee may perform within their scope of duties and the data within a system that they are allowed to access.

Criteria: System access controls should be designed and monitored such that users have access tailored to their specific job functions and duties yet maintain appropriate segregation of duties.

Condition: We found system user access for some users was broader than necessary. Accounts for seven of seventeen terminated associates sampled were found to still have STAARS enabled for greater than one week after the employee's termination date.

Cause: During a system implementation, user access is often broader than ultimately necessary. A Security Management Plan was developed that outlines access control policies and procedures and the use of role management within STAARS. Full review and mitigation of STAARS access management is expected to be completed by December 2020.

Effect: Excessive system access could lead to data manipulation.

RECOMMENDATION

2018-022 Complete a thorough review of system access for all STAARS users to ensure user access is appropriately limited and consistent with each user's specific job function and responsibilities.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-023	***(significant deficiency – repeat finding – 2017-018)***

DEPARTMENT OF REVENUE – DIVISION OF TAXATION – CONTROLS OVER COUNTER TAX COLLECTIONS

Controls should be improved over the counter tax collections accepted at the Division of Taxation by upgrading the cashiering technology and integrating that functionality into the Division's STAARS system.

Background: The vast majority of tax payments are received electronically or through mail payments, however, some taxpayers make payments in person at the Division of Taxation. Such payments totaled approximately $60 million in fiscal 2018. A cashiering application was internally developed more than a decade ago that lacks appropriate information technology controls. Additionally, the cashiering application is not integrated with the Division's new STAARS system.

Criteria: Adequate application controls must be in place to ensure taxpayer payments are properly recorded and identifiable to the individual employee processing the transaction. Per National Institute of Standards and Technology (NIST) – Information Technology Lab (ITL) bulletin 1997-03, "Audit trails are a technical mechanism that help managers maintain individual accountability".

Condition: The cashiering application lacks an appropriate audit trail to identify the employee performing the transaction, sufficient password access controls, and data back-up procedures. The system is not integrated with STAARS. A manual process is required to create the transaction record so it can be scanned and processed to post to the taxpayer's account.

Funds were approved and responses to requests for proposals are being evaluated for a project to replace the counter cashiering system

Cause: This results from outdated technology and lack of integration and upgrade upon implementation of the new STAARS system.

Effect: Controls over tax collections made in person at the Division of Taxation are weakened.

RECOMMENDATION

2018-023 Complete the planned application implementation and related technology upgrades used to process counter payments at the Division of Taxation and ensure the cashiering application is integrated to the Division's STAARS system.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-024 ***(significant deficiency – repeat finding – 2017-019 and 2017-020)***

DEPARTMENT OF REVENUE – DIVISION OF TAXATION – IT RELATED RISK ASSESSMENT AND SECURITY

Information technology risk assessment policies and procedures can be enhanced. The Division of Taxation can also further enhance policies and operating procedures to restrict access to personally identifiable information and to ensure the effectiveness of the business continuity plan.

Background: Periodic comprehensive technology risk assessments are key to uncovering underlying vulnerabilities in the environment as well as providing guidance on where to best spend limited assets to reduce risk.

For example, potential risk to the organization's technology assets require periodically assessing whether sufficient redundant hardware is in place to enhance system availability and whether remote offsite backup facilities and data are ready to provide recoverability if a disaster should occur.

We observed opportunities for the Division to enhance various security features to ensure adequate controls are established and operating effectively to restrict access to personally identifiable information and to ensure the effectiveness of the business continuity plan.

Criteria:

- National Institute of Standards and Technology (NIST) RA-3, risk assessments should be performed every three years or whenever there are significant changes (e.g. new system implementations).

- NIST 800-122 provides guidelines to restrict access to personally identifiable information.

- NIST 800-92, section 2.4, "an organization should define its requirements and goals for performing logging and monitoring logs to include applicable laws, regulations and existing organizational policies".

- NIST 800-124, "organizations should have a mobile device use policy" and consider "requiring device authentication and/or other authentication before accessing organization resources".

- NIST PE-5 provides guidelines to link individual identity to receipt of output from a device such as a printer.

- Business Continuity Plans must contain complete key personnel contact information to coordinate business operations in the event of an emergency.

Condition: The following conditions were noted:

- The Division has developed a Security Management Plan (in conjunction with DoIT); however, there was no evidence that comprehensive IT risk assessments were being performed.

- The Business Continuity Plan, while improved, continues to lack complete contact information (e.g. phone numbers) for some key personnel needed in the event of an emergency.

- The collection of application infrastructure log data was demonstrated, however, there are currently no procedures or personnel assigned to monitor audit logs.

- There were no mobile storage device procedures and controls in use at the agency.

- Access controls (such as employee badges) provide enhanced security for report printouts which significantly reduces the likelihood of unauthorized access to sensitive information. Taxation does not have printer access controls to ensure only appropriate access to printed output.

Cause: While informal risk assessment practices are included in the periodic activities, a formal program has never been implemented.

Policies and operating procedures require enhancement.

Effect: The lack of a documented formal risk assessment process coupled with no comprehensive periodic risk assessments leaves the agency vulnerable to both existing and emerging technology risks which could result in a security breach and/or impact application availability and recoverability.

Access to sensitive personally identifiable information may be insufficiently restricted and, in an emergency, the effectiveness of the business continuity plan may be lessened due to incomplete contact information for key personnel.

RECOMMENDATIONS

2018-024a Perform risk assessments at least once every three years with the results documented and communicated to management for action.

2018-024b Implement access controls for shared printers to link the individual's identity to receipt of the printed output. Develop and implement procedures and controls to restrict the use of mobile storage devices at the agency.

2018-024c Add all missing contact information to the agency business continuity plan.

2018-024d Define and implement procedures and assign resources to monitor audit log information and perform required follow-up procedures.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2018-025 *(significant deficiency – repeat finding – 2017-027)*

REVENUES COLLECTED BY THE DIVISION OF MOTOR VEHICLES (DMV) FOR USE WITHIN THE INTERMODAL SURFACE TRANSPORTATION (IST) FUND

Controls can be improved over the recording of license, registration and surcharge fees collected by the Division of Motor Vehicles (DMV) and deposited in the IST Fund.

Background: The DMV collected and remitted revenues totaling $50.3 million of taxes and $23.5 million of licenses, fines, sales and services revenue for recording in the IST Fund during fiscal 2018.

Criteria: RIDOT must have controls in place to ensure the completeness of revenue reflected within the IST Fund. RI General Law 39-18.1 designates certain fees to be deposited in the IST Fund for transportation purposes.

Condition: RIDOT lacks effective controls to ensure that all revenues collected by the DMV for deposit within the IST Fund have been recorded. RIDOT should have procedures in place to provide reasonable assurance that the appropriate fees have been earmarked for the IST Fund and have been received and recorded as revenue. This should include documentation of the fee structure identified by RI General Law 39-18.1, the surcharge amount being applied to each DMV transactions code, and how the DMV computer system is programmed to identify such amounts for the IST Fund. RIDOT and the DMV should periodically assess the reasonableness of the actual revenue recognized for recording in the IST Fund.

The DMV implemented a new computer system (Rhode Island Modernization System or RIMS) during fiscal 2018 which facilitates enhanced monitoring and reporting functionalities. While the focus has been on successful system implementation, using the system for enhanced monitoring of compliance with statutory revenue earmarking requirements has not been fully explored.

Cause: RIDOT has not established sufficient controls and monitoring procedures to ensure the completeness of the DMV revenue transferred to RIDOT and has not obtained documentation as to how the surcharge amounts identified in the General Laws are assigned to transaction codes. The DMV does not provide reports that identify the transaction type, number of transactions, and respective amount collected on a weekly, monthly or yearly basis.

Effect: Controls to ensure the completeness of the DMV revenues earmarked for transportation purposes within the IST Fund are ineffective.

RECOMMENDATION

2018-025 Strengthen and document control procedures over the fees collected by the Division of Motor Vehicles (DMV) and transferred to RIDOT to ensure compliance with RI General Law Chapter 39-18.1. Implement monitoring procedures to assess the reasonableness of revenue amounts collected by the DMV for deposit in the IST Fund.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-026 *(significant deficiency – new finding)*

INFORMATION TECHNOLOGY RELATED RISK ASSESSMENT – DEPARTMENT OF REVENUE – DIVISION OF MOTOR VEHICLES

The Division of Motor Vehicles should develop, document and implement information technology risk assessment procedures for its newly implemented RIMS computer application.

Background: Conducting periodic comprehensive technology risk assessments are key to uncovering underlying vulnerabilities in the environment as well as providing guidance on where to best spend limited resources to reduce risk.

Recent security breaches highlighted by the media demonstrate the ongoing need to periodically assess the technology infrastructure for threats such as unapproved access to applications and data. In addition, 2018 weather events (e.g. hurricanes) also demonstrated the potential risk to an organization’s technology assets with regards to the need to periodically assess whether sufficient redundant hardware is in place to enhance system availability and whether remote offsite backup facilities and data are ready to provide recoverability if a disaster should occur.

Criteria: Risk assessment policies and procedures must be documented (National Institute of Standards and Technology – NIST RA-1). Risk assessments should be performed every three years or whenever there are significant changes (e.g. new system implementations) (NIST RA-3).

Condition: We found no written risk assessment procedures or documented methodologies. In addition, there was no evidence that comprehensive IT risk assessments were being performed.

Cause: While informal risk assessment practices are included in the periodic activities, a formal program has not been implemented.

Effect: The lack of a documented formal risk assessment process coupled with no comprehensive periodic risk assessments leaves the agency vulnerable to both existing and emerging technology risks which could result in a security breach and/or impact application availability and recoverability.

RECOMMENDATION

2018-026 Develop a documented risk assessment methodology as well as related procedures. The agency should also implement periodic technology risk assessments. Risk assessments should be performed at least once every three years with the results documented and communicated to management for action.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-027 *(significant deficiency – new finding)*

BUSINESS CONTINUITY PLAN – DEPARTMENT OF REVENUE – DIVISION OF MOTOR VEHICLES

The Department of Revenue – Division of Motor Vehicles should develop and document a Business Continuity Plan (BCP) to ensure that critical business processes can continue during a time of emergency or disaster.

Background: Business Continuity Plans help to ensure that critical business processes can continue during a time of emergency or disaster. By documenting and testing business contingency plans that would be performed by agency personnel in the event of an emergency, they complement disaster recovery plans so business operations can continue as IT applications and infrastructure are recovered.

A successful recovery of agency IT systems per the disaster recovery plan by itself is insufficient to fully resume key business operations. Key personnel identified in the BCP are necessary to communicate information to agency employees (e.g. where to report for work, changes in connection and login information) to continue agency business operations.

Criteria: NIST Special Publication 800-34 discusses key items needed for contingency planning including having a Business Continuity Plan. This is also an industry best practice.

Condition: The DMV has not formally developed or documented an agency Business Continuity Plan. The RIMS system is a critical State system with multiple interfaces to other state agencies, that, in the event of disruption, could impact critical state operations.

Cause: The DMV has been focused, in fiscal 2018, on the successful implementation of RIMS.

Effect: If an agency BCP plan is not documented and tested, there is an increased risk of failure to be able to resume normal business operations in the event of an incident or disaster.

RECOMMENDATION

2018-027 Develop, document and test a Business Continuity Plan covering critical DMV operations and focusing specifically on RIMS system functionalities.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-028	***(significant deficiency – new finding)***

SYSTEM SECURITY PLAN – DIVISION OF MOTOR VEHICLES – RIMS

A comprehensive system security plan should be implemented to guide timely consideration of all critical system security requirements.

Background: Security procedures and related documentation are still being developed for the DMV RIMS system which was implemented during fiscal 2018. A strong and well-designed information security program is essential for protecting an organization's communications, systems, and assets from both internal and external threats.

Criteria: Per NIST 800-53, PM-2, "The organization appoints a senior information security officer with the mission and resources to coordinate, develop, implement, and maintain an organization-wide information security program."

Per NIST SP800-18, "The purpose of the system security plan is to provide an overview of the security requirements of the system and describe the controls in place or planned for meeting those requirements. The system security plan also delineates responsibilities and expected behavior of all individuals who access the system."

A data inventory is essential for identifying and tracking an organization's financial data, intellectual property as well as other sensitive data such as personally identifiable information, in addition to helping organizations apply required access controls and security safeguards.

Condition: A draft System Security Plan has recently been developed in conjunction with DoIT but has not yet been completed and implemented.

There was no assigned Senior Information Security Officer in place during fiscal 2018.

A sensitive data inventory should be maintained for the DMV RIMS database.

Formal Incident Response training (such as handling a data breach) was not provided for employees.

Cause: The DMV has been focused, in fiscal 2018, on the complete implementation of RIMS. Additional focus is needed on the key elements of a well-designed information security program.

Effect: The lack of a documented System Security Plan places the DMV at risk as no one person in the organization has the full overview understanding of the required security controls in place. Without such a document, it is also difficult to assess where deficiencies may exist, and additional controls are needed.

The overall information security program is weakened in the absence of a senior information security officer.

The lack of a sensitive data inventory leaves data susceptible to unauthorized access, theft, and loss. Understanding the type of data collected, where it is held, whom has access, and how it is transferred is a critical component of data privacy and data security programs. In the event of a data breach, the organization would not be able to quickly and accurately identify which data was accessed and/or lost. Additionally, if data is not properly classified, inventoried, and stored, unauthorized users within the organization may be able to access sensitive/confidential data.

RECOMMENDATIONS

2018-028a Complete the development, review and approval of the System Security Plan and once implemented, assess compliance with the designated security program.

2018-028b Establish a senior information security officer function to manage security oversight.

2018-028c Implement procedures to classify and inventory sensitive date within the RIMS database.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-029 *(significant deficiency - repeat finding - 2017-026)*

INTERMODAL SURFACE TRANSPORTATION FUND – FINANCIAL REPORTING

Controls can be enhanced over the presentation of financial statements to ensure consistent and accurate reporting of fund activity in accordance with generally accepted accounting principles.

Background: The Intermodal Surface Transportation (IST) Fund, a special revenue fund, includes financial reporting for transportation related activities of the State, including the highway construction programs, the expenditure of proceeds from the State's Grant Anticipation Revenue Vehicle (GARVEE) bonds and matching Motor Fuel bonds for specific highway construction related projects, various license and registration fees collected by the Division of Motor Vehicles, toll revenues, in addition to the funds received from the sale of excess land to the I-195 Redevelopment District Commission.

Criteria: Controls over the preparation of financial statements should ensure consistent and accurate reporting of fund activity in accordance with generally accepted accounting principles. Additionally, fund balance components are to be presented in accordance with generally accepted accounting principles (GASB codification section 1800 paragraphs 177 and 179) reflecting any restrictions on use or commitments by management. Classification of fund balance components, particularly within the IST Fund, demonstrates amounts available to support the transportation program consistent with any limitations or restrictions on use.

Condition: During our audit, we identified misclassifications of various fund balance categories which were corrected in the financial statements.

Due to the multiple computer systems used by RIDOT, the department must identify accounts payable within each subsystem. The use of those systems makes the identification of accounts payable more challenging. Additionally, the accounting structure between RIFANS and the other systems are not the same, causing the department to manually assign RIFANS accounting structures to thousands of detailed transactions to properly record the accounts payable.

Accounts payable were booked to clearing accounts, causing the expenditures to be associated with an incorrect funding source. This resulted in incorrect federal revenue and federal receivable amounts reflected in the draft financial statements.

Cause: Financial reporting for the IST Fund grows in complexity as additional funding sources are added to support the State's transportation program. Certain of the distinct funding sources are maintained in separate funds; however, for financial reporting purposes all the transportation related funds are combined. Although combined for financial reporting purposes, each activity or funding stream requires separate analysis to ensure amounts (revenue and expenditures) are accurately reported. Classification of fund balance by category – nonspendable, restricted, committed, assigned, and unassigned **-** is dependent upon the analysis of each activity and/or funding stream (federal, Highway Maintenance Fund, RICAP, Gas Tax, etc.). RIDOT did not fully reconcile all the funding sources to fund balance components. A full reconciliation is necessary to identify expenditures and/or revenue booked to incorrect funding sources in addition to ensuring that the fund balance is properly recorded for financial statement purposes.

The accounts payable identification process for fiscal closing is manual, complex, labor-intensive and susceptible to error. For example, due to the timing of processing expenditures through the multiple systems, the fiscal year accounts payable process increases the risk of including the same expenditure in multiple accounts payable journal entries. This process should be re-assessed with the goal of streamlining and simplifying the process. Greater use of estimates should be considered when appropriate.

Effect: Account balances within the IST financial statements could be misstated.

RECOMMENDATIONS

2018-029a Ensure the transactions identified through the analysis of each activity and/or funding source within the IST Fund result in the appropriate categorization and reporting of fund balance components on the financial statements and general ledger. Ensure a complete reconciliation of activity by funding source to the fund balance components included on the financial statements is performed.

2018-029b Re-assess policies, procedures and controls to identify and record accounts payable at fiscal close with the aim of streamlining and simplifying where possible. Consider increased use of estimates where appropriate.

2018-029c Enhance fiscal closing procedures to ensure all expenditures recorded in clearing accounts are properly allocated to the correct accounts by fiscal year end. Consider whether recording accrual entries to the clearing accounts is appropriate.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2018-030 *(material weakness – repeat finding – 2017-029)*

TRANSPORTATION INFRASTRUCTURE REPORTING

Controls over the identification of transportation infrastructure assets have been improved but can be further enhanced to ensure the accuracy of such amounts. Controls should be improved to identify impaired infrastructure assets as well as removing infrastructure costs when assets are retired or replaced.

Background: RIDOT implemented a process in fiscal 2017 to identify transportation infrastructure assets which was a significant enhancement. The new process uses the RIDOT Financial Management System (FMS) to identify each project and ensures that total project costs (e.g., design and construction costs) are included in the capitalized amount. Since the source of the information used to identify capitalized infrastructure is FMS and the financial statements are based on RIFANS (statewide accounting system), the data used must be reconciled between the two systems.

Criteria: Generally accepted accounting principles (GAAP) require recording the State's investment in infrastructure assets to be reflected on the government-wide financial statements. Such amounts should be capitalized and depreciated consistent with the State's adopted accounting policies. Amounts are recorded as construction in progress until placed in service at which time depreciation commences.

GAAP also requires that capital assets be evaluated for impairment when events or changes in circumstances suggest that the service utility of a capital asset may have significantly and unexpectedly declined. These standards also require adjustment of the carrying value of capital assets that meet certain impairment criteria.

The cost and related accumulated depreciation associated with infrastructure assets that have been replaced or are no longer in service should be removed from the infrastructure amounts included on the financial statements.

Condition: RIDOT did not document its consideration of transportation infrastructure assets that may be impaired and provide such documentation to the Office of Accounts and Control for the purpose of preparing the State's financial statements. The cost and related accumulated depreciation associated with infrastructure assets that have been replaced or are no longer in service has not been removed from the infrastructure amounts included on the State's financial statements.

RIDOT can further improve its new infrastructure asset process by documenting and simplifying the reconciliation between the RIDOT Infrastructure Report and RIFANS to ensure completeness. The current reconciliation process uses information from over 30 linked Excel files. RIDOT continues to refine the reconciliation process and how the various data files are used to support the reconciliation objective. Ultimately, RIDOT identified an immaterial difference between the Infrastructure Report and RIFANS of $1.5 million or 0.34% of the infrastructure report amount. The infrastructure process does not include accrued project costs (accounts payable) at fiscal year-end since those amounts are not included in RIDOT's FMS.

We proposed audit adjustments to correct balances at June 30, 2018 - construction in progress was overstated by $20,316,653 and Infrastructure was understated $11,167,657 because 3 projects were assigned the incorrect project classification code, the project classification codes identify the type of infrastructure project or road maintenance project. Additionally, 2 projects were not properly identified in FMS as being substantially complete. Documentation supporting the assignment of project classification codes and identification of substantially complete projects could also be enhanced.

Projects classified as infrastructure are assigned to 1 of 8 infrastructure codes, the infrastructure codes were established to identify the infrastructure type (road, bridge, etc.) and the useful life of the infrastructure. The useful life of the infrastructure determines the period (ranging from 7 to 75 years) over which the asset will be depreciated.

The Department incorrectly calculated the amounts to be recorded by infrastructure code, the overstatements and understatements by infrastructure code varied from $113.3 million overstatement to a $65 million understatement. Assignment of the wrong code affects depreciation expense in the current and subsequent fiscal years - the impact on depreciation expense in fiscal 2018 was $4.6 million.

Cause: RIDOT's infrastructure asset identification process was implemented during fiscal 2017 and can be further enhanced going forward by documenting the process and refining the reconciliation between FMS and RIFANS. A process to remove estimated costs for retired/replaced infrastructure has not been implemented. The consideration and documentation of impaired infrastructure assets has not been formalized.

Effect: Infrastructure assets and related depreciation expense may be misstated in the State's financial statements.

RECOMMENDATIONS

2018-030a Enhance controls over the recording of transportation infrastructure assets by documenting RIDOT's related policies, procedures and controls.

2018-030b Document the policies, procedures and control over the RIDOT Infrastructure Report to RIFANS reconciliation and simplify the reconciliation to ensure completeness.

2018-030c Enhance controls over the identification of Infrastructure in RIFANS by including the RIDOT project number in the RIFANS project code field.

2018-030d Enhance controls over the assignment of the project infrastructure code, by documenting project management personnel's concurrence.

2018-030e Enhance controls over the identification of projects determined to be substantially complete. Include the infrastructure code and substantially complete date for projects in the FMS hierarchy.

2018-030f Enhance controls over the accuracy of amounts reclassified from construction in progress to infrastructure including designating the infrastructure code classification.

2018-030g Document consideration of whether any of the State's transportation infrastructure has been impaired consistent with GAAP criteria.

2018-030h Implement a process to remove estimated infrastructure assets and related accumulated depreciation when assets have been replaced or taken out of service.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2018-031	***(significant deficiency – new finding)***

PENSION TRUSTS - CONTROLS OVER RECOGNITION OF INVESTMENT EXPENSES

Controls to ensure accurate and consistent reporting of investment expenses within the pension trust funds require enhancement at both the custodian and Employees' Retirement System management level.

In fiscal 2018, the Employees' Retirement System (System) changed its accounting policy for recognizing investment expenses from recording certain investment income on a net-of fees basis to recording all material investment expenses on a gross basis. This change resulted in a more complete disclosure of expenses and therefore a material increase in investment expenses presented on the System's annual financial statements (an increase of approximately $60 million compared to fiscal 2017).

The System's investment custodian records all investment transactions including investment income and related expenses. Investment expenses include investment consultant fees, custodial fees, direct investment expenses paid to managers, and certain indirect expenses allocated by managers to fund or partnership investors. For certain investment types such as hedge funds, private equity, real estate, infrastructure, and crisis protection class, indirect expenses are reported to the System and its custodian on a net of fees basis. Supplemental information and adjustment is required to consistently record these indirect expenses on a gross fee basis.

During fiscal 2018, the System directed its custodian to account for investment expenses consistent with its newly adopted policy. We found that controls to ensure accurate and consistent reporting of investment expenses require enhancement at both the custodian and System management level. Significant analysis and adjustment was required to include the appropriate investment expense amounts in the System's fiscal 2018 financial statements (however, our independent auditor's report on the System's fiscal 2018 financial statements was unmodified).

As described above, for certain investment types, supplemental information from the fund or partnership is required to allow recording of the allocated share of the System's indirect expenses. For many of these investment types, such supplemental information is available on a quarterly basis while hedge funds report monthly. To address a call for increased transparency, some private equity firms utilize a standard reporting template (developed by the Institutional Limited Partners Association or ILPA) which details allocable indirect expenses. Only approximately 30% of the System's private equity partnerships utilize the standard template. When available, use of the ILPA template increases the standardization of recording investment income and expenses for these alternative investment types.

The custodian utilizes the ILPA form when available and other supplemental reporting provided by the funds or partnerships when it is not. Recording such activity requires interpretation and manual entry to adjust the investment income and expenses consistent with the System's policy and direction. The System did not implement the policy at the start of the fiscal year and accordingly retroactive adjustment was required for data previously recorded. Further, data was sometimes recorded using the first available data from the fund or partnership which then needed additional adjustment when more complete data (e.g., ILPA form) was available. In some instances, the custodian made errors in the recording of the transactions. This resulted in a significantly increased volume of activity within the custodian's system due to the initial recording, subsequent adjustments, and then final correcting adjustments. The processes employed by the investment custodian to record alternative investment activity are more custom services and are less subject to the overall custodian internal control processes which are standardized and tested periodically for reliability.

The System needs to improve routine monitoring controls to ensure the consistency and reliability of reported investment income and expenses by the custodian. Subsequent to the close of the fiscal year, the System's investment staff analyzed custodian posted activity and proposed adjustments to accurately reflect investment income and expense amounts; however, further enhancements are needed to its processes to monitor investment activity recorded by the custodian.

The process to record certain hedge fund expenses is largely performed off-line by System investment staff and then provided to the custodian for recording. This process should also be subject to enhanced monitoring efforts.

The System needs to comprehensively evaluate and re-communicate all instructions to the investment custodian for the recording of alternative investment income and expenses. The custodian should provide updated descriptions of its processes and controls to ensure accurate reporting of investment activity for alternative investments.

The System also needs to formalize its monitoring processes to ensure that the custodian is reliably and accurately recording investment income for alternative investments. Certain custodian reporting functionalities need to be enhanced to facilitate timely review of the recorded activity. Additional investment accounting resources may be required to enhance these investment monitoring capabilities. Alternatively, the System could explore outsourcing certain of the monitoring and review of recorded investment income and expense for alternative investments.

Overall, the System's change in accounting policy was well intentioned to meet a desire for enhanced transparency for total investment related expenses. However, the process requires enhanced control procedures to ensure the reliability of amounts reported by the custodian which ultimately become the basis for amounts reported in the System's annual financial statements.

RECOMMENDATIONS

2018-031a Evaluate comprehensively and re-communicate instructions to the System's investment custodian regarding the recording of investment income and expense for alternative investments.

2018-031b Implement a comprehensive monitoring process within the Office of the General Treasurer to ensure investment income and expense for alternative investments are recorded by the investment custodian consistent with the System's requirements on a timely basis.

2018-031c Explore out-sourced options to monitor and quality-control review the recording of investment income and expense transactions for alternative investments.

2018-031d Develop custom reports from the custodian to facilitate the monitoring and review process for alternative investment transactions.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-032	***(significant deficiency – new finding)***

ASSESS THE RESOURCES AND SYSTEMS NECESSARY TO EFFECTIVELY ADMINISTER THE OPEB SYSTEM

The resources necessary to effectively manage and administer the OPEB System to ensure all System functions are met and adequately controlled should be assessed. A unified database or computer application is needed to maintain membership data for each of the State's OPEB plans. This would improve controls over the administration of the benefit programs and the process to accumulate data necessary for periodic actuarial valuations of the OPEB plans for both funding and accounting purposes.

Background: The Rhode Island State Employees' and Electing Teachers OPEB System (the System), acts as a common investment and administrative agent for post-employment health care benefits provided by six plans covering state employees and certain employees of the Board of Education.

When the State began to advance fund its retiree health benefits, OPEB trusts were established for each of the plans and a formalized governance structure was established by statute; however, no dedicated personnel were specifically tasked with administering the System and no administrative systems were implemented at that time, or subsequently, to capture and control membership data for the various OPEB plans. Instead membership data, the determination of eligibility for benefits and any required retiree copays are administered through a variety of processes which largely lack the controls needed to administer plans of this size and complexity. In prior years, certain plan benefit functions were administered through the member benefit system used by the Employees' Retirement System of Rhode Island (ERSRI) for pension benefits; however, the ERSRI's newly implemented member benefit system no longer includes those functionalities.

The System's functions are managed through various units within State government. The Department of Administration's Office of Employee Benefits (OEB) currently determines eligibility and manages member benefits for the State Employees, Teachers, Judges, State Police and Legislator plans. The Human Resources Department at the University of Rhode Island, separately determines eligibility, calculates benefits and manages member subsidy receivables for the Board of Education plan. The Office of Accounts and Control handles the accounting and financial reporting aspects of the System and coordinates the actuarial valuations. The Office of the General Treasurer oversees the investment activity of the System.

Census data for each plan is provided annually to the System's actuary to prepare required actuarial valuations of the plans. Each plan has unique benefit eligibility and healthcare coverage provisions.

Criteria: As the System grows in size and matures, the administrative infrastructure supporting the System should be assessed to ensure adequate resources and systems with appropriate controls are in place to manage the System effectively.

Maintaining membership data and determining the eligibility for benefits and required co-pays should be managed through systems and processes with adequate controls to ensure that membership data is reliable, benefits are accurately and consistently determined consistent with plan provisions, and plan census data is maintained to facilitate extraction for actuarial valuations. Duties should be appropriately segregated to ensure that no one individual is responsible for determining eligibility and required copays, enrolling the individual for coverage, collecting and accounting for copay amounts, and maintaining plan census data.

Condition: We identified control deficiencies over the various disjointed processes used to administer the OPEB plans as follows:

- Insufficient resources have been allocated and centralized to administer the System effectively. Knowledge of key System benefit provisions, administrative operations and operating procedures are dispersed among too many separate units of State government without effective coordination.

- The accumulation of census data provided to the actuary for plan valuation purposes is derived from multiple sources and requires analysis of other external source data to establish the active and retiree plan members for each plan. Because much of the analysis is done on spreadsheets, controls over data validity, data protection, and completeness are lacking. Controls are inadequate to prevent duplicate or inaccurate census data from being provided to the actuary.

- Inadequate segregation of duties exists between eligibility determinations, benefit calculations, copay receivable billings and collections, healthcare plan enrollment, and maintenance of the plan census information.

- Periodic reconciliations between the plans' records and healthcare providers enrollment data is not documented.

- Procedures for identifying and terminating coverage for deceased members, spouses and dependents are inconsistent and can be improved.

Cause: The State and System have not implemented System specific administrative processes and computer applications to effectively support the overall administration of the OPEB System, accumulate plan census data, manage and control the eligibility, copay determination, and plan enrollment functions. Existing processes used to support healthcare plan enrollment for active employees have generally been used to support the OPEB System but lack certain functions and controls that are unique to and requisite for the administration of the OPEB System.

Effect: Inadequate controls over key plan administrative functions could impact the reliability of amounts (e.g., member co-pays and member benefits) reported on the System's financial statements as well as the accuracy of census data used by the actuary to determine each plan's annual actuarially determined contribution amount and the net OPEB liability or asset for each plan.

RECOMMENDATIONS

2018-032a Assess the resources necessary to effectively manage and administer the OPEB System to ensure all System functions are met and adequately controlled.

2018-032b Implement a member benefit computer application to accumulate and manage plan membership data to support the overall administration of the OPEB System with enhanced controls.

2018-032c Evaluate assigned responsibilities for key functions and segregate certain responsibilities for incompatible functions to enhance controls over critical plan administrative functions.

2018-032d Establish consistent procedures to identify deceased plan members and prompt timely termination of coverage.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-033	***(significant deficiency – new finding)***

OPEB TRUSTS – ESTABLISH PROCEDURES TO DOCUMENT CONSIDERATION OF SERVICE ORGANIZATION CONTROLS

The Office of Accounts and Control should document its consideration of the adequacy of controls at service organizations, which process OPEB Trust Fund transactions to ensure the reliability of information reported in the OPEB Trust financial statements.

Background: The State uses service organizations to process certain OPEB transactions for eligible retirees, which includes healthcare benefits, prescription benefits, and health reimbursement account benefits for Medicare eligible State employees. These service organizations process claims activity and report summary claims information for recording in the State accounting system and OPEB financial statements.

Criteria: The State is responsible for ensuring that adequate controls are in place and operating effectively to ensure that information supporting the OPEB financial statements is accurate and reliable. Generally, service organizations engage independent auditors to determine and report on the suitability of the design and operating effectiveness of controls at the service organization, known as Service Organization Control Reports (SOC reports). System management is responsible for considering the adequacy of controls at the service organization level combined with those at the user entity level to ensure that the System's financial reporting objectives are met.

Condition: We found that the Office of Accounts and Control does receive SOC reports from the service organizations used to process various OPEB transactions. However, it does not document its consideration of the results contained in these reports, combined with an assessment of any required user entity controls, to ensure that adequate internal controls are in place and operating effectively over System transactions processed by service organizations.

Cause: The Office of Accounts and Control has not established procedures to document its consideration of SOC report results combined with an assessment of its user entity controls relating to significant OPEB transactions.

Effect: Inadequate controls over System transactions and related reporting could impact the reliability of information used to prepare the OPEB System financial statements.

RECOMMENDATION

2018-033 Establish procedures to formally document consideration of the adequacy of controls at service organizations and at the user entity level that are relevant to the System's financial reporting

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2018-034	***(material weakness– repeat finding – 2017-032)***

CENTRAL FALLS SCHOOL DISTRICT – SIGNIFICANT ADJUSTMENTS

Criteria: Management is responsible for the maintenance of adequate accounting records, internal controls, and the fair presentation of the financial statements in accordance with generally accepted accounting principles.

Condition: Material adjustments to year-end balances and current year activity were necessary for the financial statements to be fairly presented in accordance with generally accepted accounting principles.

Cause: There are a number of causes for this condition, many being the result of attempts to correct circumstances. However, the principle causes are a lack of a coordinated, comprehensive plan to implement and train employees with new financial software, concurrent with the retirement of several key long-term employees.

Effect: Information recorded in and reports produced from the accounting system contained numerous material errors related to the inclusion or exclusion of information resulting from data entry and software execution errors, resulting in material adjustments accepted by management to the District's financial statements.

RECOMMENDATION

2018-034 A comprehensive plan to coordinate all District financial accounting recording and reporting activities is in the process of being developed and implemented. This plan should include the development of a comprehensive policies and procedures manual; adequate staffing including training of all staff as to both the processes and the software involved; appropriate controls related to authorization and review of recorded transactions; timely recording of transactions, reconciliations and reviews of reconciliations so as to detect and correct errors in a timely manner, and a comprehensive review of the District's organizational structure to ensure adequate levels of supervision and clear reporting paths for all staff involved.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-035	***(significant deficiency– repeat finding – 2017-033)***

CENTRAL FALLS SCHOOL DISTRICT – CAPITAL ASSETS

Criteria: Capital assets are maintained by the District and reported in the government-wide statement of net position. Although these capital assets and the related depreciation do not impact the fund statements of the District, they do have an impact on the overall governmental net position. Additionally, the District is required to maintain capital asset records for all assets that are purchased with federal grant funds.

Condition: The District does not have procedures for maintaining the capital asset records on a perpetual basis or for taking a physical inventory of these assets. In addition, the District does not have a system in place for identifying capital assets acquired with federal grant funds.

Cause: The District currently maintains the capital asset records utilizing an excel database which is updated on an annual basis. This database contains a complete listing of capital assets and related depreciation expense which is maintained for financial reporting purposes only. The listing currently does not include any information regarding the location of the asset or the source of the funds used to acquire the asset.

Effect: Failure to maintain the capital asset records on a perpetual basis increases the risk of potential misstatement of the capital assets at year end. In addition, failure to conduct a periodic inventory of capital assets, including controllable assets (assets not meeting the capitalization threshold but included in inventory due to their sensitive, portable, and/or theft prone nature) increases the risk of misuse and safeguarding of District assets.

RECOMMENDATION

2018-035 We recommend that the District implement an integrated software package that will enable capital assets to be recorded when the asset is acquired rather than being captured at year end. We further recommend that the capital asset inventory be updated to include the location of the asset and a code to identify all assets that are acquired with federal funds. Management should utilize this capital asset inventory listing, as well as the controllable asset listing, to conduct periodic inventories of the assets.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-036 ***(material noncompliance – repeat finding – 2017-035)***

RHODE ISLAND CONVENTION CENTER AUTHORITY – RESTRICTIVE COVENANTS

Criteria: Bond indentures require that the Authority fund the Operating Reserve.

Condition: During the year ended June 30, 2018, the Authority was unable to fund the Operating Reserve requirement of the restrictive covenants for the RICC and the DDC pursuant to the indentures.

Context: The Authority is currently in violation of its debt indentures.

Cause: The Authority does not have sufficient cash flow to fund the Operating Reserve.

Effect: As a result of this fund not being funded, the Authority is in noncompliance with bond indentures.

RECOMMENDATION

2018-036 We recommend that the Authority fund the Operating Reserve.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2018-037 ***(significant deficiency – new finding)***

RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION – SEGREGATION OF DUTIES

Criteria: A system of internal controls should be in place to provide for proper separation of incompatible duties and insure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of performing their assigned functions. At the most basic level, no individual should have control over two or more phases of a transaction, including the authorization of financial activity and the general ledger posting and reporting functions.

Condition: While the Corporation's policies and procedures address segregation of duties matters, we noted instances where the design of compensating controls, and the documentation of the application of control procedures, can be strengthened.

Cause: Limited number of finance staff within the Corporation.

Effect: Inadequate segregation of duties and lack of related compensating controls could result in increased risk for errors or intentional/unintentional misuse of the Corporation's assets.

RECOMMENDATION

2018-037 We realize that proper segregation is not always possible in a small organization. In those instances where duties cannot be fully segregated, compensating controls should be implemented to reduce the risk of errors. Specifically, we recommend the following:

- Incoming payments – We recommend that the Administrative Assistant maintain a log of all incoming payments in connection with restrictively endorsing the checks at time of receipt. Someone independent of the accounting process should then reconcile the log to the general ledger on a periodic basis to ensure completeness.

- Disbursements – We recommend that the Executive Director review the monthly bank statements for unusual items, and the bank reconciliations for agreement to the general ledger and timeliness of performance. In addition, a periodic review of positive pay uploads to the corporation's financial institutions is recommended.

- Documentation – Evidence of the performance of all mitigating procedures should be maintained.

Implementation of these functions will help mitigate the risk of improper financial reporting or misappropriation of the Corporation's assets.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Table of Findings by Major Program		
Program Title	**CFDA**	**Applicable Findings**
Supplemental Nutrition Assistance Program (SNAP) Cluster:		
Supplemental Nutrition Assistance Program (SNAP)	10.551	2018-038, 2018-039, 2018-040, 2018-041, 2018-042
State Administrative Matching Grants for the SNAP Program	10.561	
Child Nutrition Cluster:		
School Breakfast Program	10.553	2018-043, 2018-044
National School Lunch Program	10.555	
Special Milk Program for Children	10.556	
Summer Food Service Program for Children	10.559	
National Guard Military Operations and Maintenance (O&M) Projects	12.401	None
Home Investment Partnerships Program	14.239	2018-045
Equitable Sharing Program	16.922	2018-046
Unemployment Insurance	17.225	2018-047, 2018-048
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	2018-049, 2018-050
Recreational Trails	20.219	
Federal Transit Cluster:		
Federal Transit – Capital Investment Grants	20.500	2018-051, 2018-052, 2018-053, 2018-054, 2018-055
Federal Transit – Formula Grants	20.507	
Bus and Bus Facilities Formula Program	20.526	
Special Education Cluster:		
Special Education – Grants to States	84.027	None
Special Education – Preschool Grants	84.173	
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243	2018-074, 2018-075, 2018-077, 2018-078
TANF Cluster:		
Temporary Assistance for Needy Families	93.558	2018-038, 2018-056, 2018-057, 2018-058, 2018-059, 2018-060
Low-Income Home Energy Assistance	93.568	2018-061, 2018-062, 2018-063
CCDF Cluster:		
Child Care and Development Block Grant	93.575	2018-038, 2018-064
Child Care Mandatory and Matching Funds of the Child Care Development Fund	93.596	
Children's Health Insurance Program	93.767	2018-038, 2018-065, 2018-067, 2018-068, 2018-070, 2018-071
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	2018-038, 2018-066, 2018-067, 2018-068, 2018-069, 2018-070, 2018-071, 2018-072, 2018-073
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777	
Medical Assistance Program	93.778	
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2018-074, 2018-075, 2018-076, 2018-078
Research & Development Cluster	Various	None

Finding 2018-038 ***(material weakness – repeat finding – 2017-038)***

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) CLUSTER – CFDA 10.551 and 10.561
Federal Award Agency – Department of Agriculture
Award Year: Federal Fiscal Year: 2016-2017 and 2017-2018
Federal Award Number: 2016IS251444 and 2017IS251444
CCDF CLUSTER – CFDA 93.575 and 93.596
Federal Award Agency: Department of Health and Human Services (DHHS)
Award Years: Federal Fiscal Years: 2016-2017 and 2017-2018
Federal Award Numbers: G1601RICCDF and G1701RICCDF
TANF CLUSTER – CFDA 93.558
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Year: 2016-2017 and 2017-2018
Federal Award Number: G1602RITANF and G1702RITANF
Administered by: Department of Human Services (DHS)
CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2016-2017 and 2017-2018
Federal Award Numbers: 1705RI0301 and 1805RI5021
MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2016-2017 and 2017-2018
Federal Award Numbers: 1705RI5MAP and 1805RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)
Compliance Requirement: Special Tests and Provisions

COMPREHENSIVE DEPARTMENTAL AUTOMATED DATA PROCESSING (ADP) RISK ANALYSIS AND SYSTEM SECURITY PROGRAM

EOHHS, DHS and the Division of Information Technology must enhance systems security oversight over systems used to administer multiple federally funded programs to fully comply with federal regulations relating to ADP risk and system security review. The plan must be sufficiently comprehensive and include timely reaction to and consideration of identified security issues and risk factors.

Criteria: Federal regulation 45 CFR section 95.621 requires State agencies to review the ADP system security of installations used in the administration of DHHS programs on a biennial basis or when a significant change to the security or system(s) occur. At a minimum, State agencies must establish and maintain an ADP security plan and implement a program for conducting periodic risk analyses to ensure that appropriate, cost-effective safeguards are incorporated into new and existing systems.

EOHHS and DHS are charged with managing and securing ADP systems, which administer various federal DHHS and State programs (Medicaid, TANF, etc.). In fiscal 2018, these programs had eligibility, benefit determinations, and payments processed mainly by two systems – MMIS and RIBridges. These systems are key to the processing of eligibility and payments for the respective programs. State agencies were required to determine appropriate ADP security requirements based upon recognized industry standards for each system, optimally within a comprehensive plan. In addition to EOHHS and DHS, the State Division of Information Technology (DoIT) also plays a significant role in IT security relating to RIBridges.

Condition: While EOHHS, DHS, and DoIT accumulate documentation in support of system security considerations, the departments do not currently formalize an annual plan that meets the compliance requirement of a risk assessment and documented approach to ensure compliance with federal requirements for ADP risk analysis and system security review.

EOHHS largely utilizes an independent service organization control (SOC) report to meet their security and risk monitoring activities for the MMIS. However, the ADP system security plan should be improved by (1) ensuring that the coverage provided by the SOC reports is supplemented with other monitoring procedures as required, and (2) developing a comprehensive plan encompassing all systems which meets the required federal components. Additionally, any deficiencies noted in the SOC reports must be evaluated timely to determine if they affect any of the required controls over federal program administration. Such consideration should be documented. The SOC report also relies on several complementary user controls that EOHHS is responsible for ensuring are in place and operating effectively which require more formalized consideration. Examples of areas in need of improvement include the reliability and consistency of data transmitted from RIBridges to the MMIS and improved monitoring of system access by the MMIS system contractor.

ADP risk and system security considerations for RIBridges requires more formalization by the State. The State (EOHHS, DHS, and the Division of Information Technology (DoIT)) needs to document a more formalized risk assessment and IT system security consideration for RIBridges to more fully comply with federal regulations relating to the ADP risk analysis and system security review.

During our audit, we reviewed a Service Organization Control Report relating to RIBridges which identified several State responsibilities as complementary user entity controls relating to the system. While the Division of Information Technology (DoIT) was able to detail a planned approach to IT security oversight for RIBridges, documentation of the State's specific control activities and monitoring results were not formalized at the time of our audit. Additionally, clearly documented roles and responsibilities outlining the coordination among EOHHS, DHS, and DoIT in managing IT security over RIBridges was not formalized. Such documentation should consider the extent to which external resources are needed to monitor or evaluate RIBridges' information systems security and how the results of such resources will be utilized by the State.

EOHHS, DHS, and DoIT should act promptly to (1) consider the significance of these issues and impact on the State's internal controls procedures for the administration of the affected federal programs, and (2) require corrective action by the appropriate party (including contractors assigned those responsibilities).

Cause: Failure to fully comply with federal requirements to establish and maintain an ADP security plan and implement a program for conducting periodic risk analyses to ensure that appropriate, cost-effective safeguards are incorporated into new and existing systems.

Effect: Federal non-compliance with requirements relating to ADP risk analysis and system security review and exposure to the information system security and program integrity risks that those regulations are designed to mitigate.

Questioned Costs: None

Valid Statistical Sampling: Not applicable

RECOMMENDATIONS

2018-038a Enhance compliance with federal ADP Risk Analysis and System Security Review requirements by creating a comprehensive, integrated plan for RIBridges and the MMIS. Coordinate the efforts of EOHHS, DHS, DoIT, and contractors in meeting these objectives.

2018-038b Ensure that the formalized plan includes a comprehensive risk assessment for both systems, critical controls deemed effective in mitigating those risks, and specific monitoring procedures to ensure the effective operation of those policies and procedures, including reliance on external contract services when required.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2018-039	***(significant deficiency – repeat finding 2017-040)***

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) CLUSTER – CFDA 10.551 and 10.561
Federal Award Agency – Department of Agriculture
Award Year: Federal Fiscal Years: 2016-2017, and 2017-2018
Federal Award Number: 2017IS251444 and 2018IS251444
Administered by: Department of Human Services (DHS)
Compliance Requirement: Reporting

FEDERAL REPORTING – FINANCIAL REPORTS

DHS can improve its controls over federal reporting to ensure that SNAP program expenditures are properly reported.

Criteria: Federal reports must be based on the financial system used to prepare the State's financial statements. Reports should be accurate and agree to supporting documentation. When costs are allocated among various programs, allocations should be consistent with Uniform Guidance requirements and a federally approved cost allocation plan. The FNS 425 (summary) and 778 (detail) reports are filed each quarter for the SNAP administrative grants.

Condition: During fiscal 2018, DHS was addressing various issues which it believed resulted in inconsistent cost allocations to federal programs, including SNAP, through its departmental cost allocation plan. DHS retrained employees regarding the random moment time study process and instructed the cost allocation plan vendor to revise quarterly cost allocation reports to more appropriately reflect worker efforts. Federal reports prepared and submitted during fiscal 2018 were a composite of initial and revised cost allocation data including state accounting system adjustments that reflected the initial and later revised costs allocation data as well. This created timing differences and resulted in control weaknesses over federal report preparation.

The 2018 reports were amended in SFY 2019 to reflect the revised cost allocation results.

Cause: Oversight of the newly implemented cost allocation plan was impacted by vacancies in key departmental financial positions and the challenges of implementing the new RIBridges system. Additional training was required for employees to appropriately complete the random moment time study process.

Effect: The federal reports detailing administrative expenditures for the program may be incorrect. Not utilizing the cost allocation plan means departmental indirect costs, costs matched from other state accounts, and direct costs from other departments were not reported.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATION

2018–039 Ensure consistent and timely operation of the departmental cost allocation system to allow appropriate allocation of shared costs to multiple federal programs including SNAP. Report administrative expenditures consistently based on the data resulting from the approved cost allocation plan system.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2018-040	***(material noncompliance/material weakness – repeat finding – 2017-041)***

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) CLUSTER – CFDA 10.551 and 10.561
Federal Award Agency – Department of Agriculture
Award Year: Federal Fiscal Years: 2016-2017 and 2017-2018
Federal Award Numbers: There are no award numbers for SNAP benefits
Administered by: Department of Human Services (DHS)
Compliance Requirement: Reporting

FEDERAL REPORTING – SPECIAL REPORTS

The Department did not submit timely and accurate federal reports required for the program due to limited data reporting functionality within RIBridges during fiscal 2018.

Background: RIBridges is the State's federally-approved computer system used to manage multiple health care and human service programs. It was designed to allow for integrated eligibility across programs, enhanced client accessibility, and provide for periodic validation of client attested data through multiple electronic interfaces. RIBridges system operation has been problematic since implementation and efforts to address eligibility processing challenges are ongoing. Enhanced federal funding for new eligibility systems was approved to provide more efficient, economical, and effective administration of the State plan. Administration of SNAP benefits through RIBridges began in September 2016.

Criteria: State agencies are required to automate their SNAP operations and computerize their systems for obtaining, maintaining, utilizing, and transmitting information concerning SNAP (7 CFR sections 272.10 and 277.18). This includes generating data necessary to meet federal issuance and reconciliation reporting requirements. Federal reports required for the program include:

- FNS-46 - *SNAP Issuance Reconciliation Report (OMB No. 0584-0080)*. This monthly report is used to account for benefits issued during a report month for each issuance reconciliation point.

- FNS-209 - *Status of Claims Against Households (OMB No. 0584-0069)*. If a household receives more SNAP benefits than it is entitled to receive, the State must establish a claim against that household and demand repayment (7 CFR section 273.18 (a)). The State is required to create and maintain a system of records for monitoring these claims against households.

Condition: DHS did not submit FNS-46 reports in 2018. Reports submitted after the implementation of RIBridges (fiscal 2017) contained errors and were rejected by FNS. Report submission was suspended while DHS and the system developer resolved system related issues. DHS worked with USDA's Food and Nutrition Service to correct previously submitted monthly FNS-46 reports and to produce reports for periods that were not submitted for 2018.

DHS did not submit FNS-209 reports for fiscal 2018. (FNS-209 reports were not submitted since implementation of RIBridges in September 2016 through fiscal 2018 due to RIBridges limitations.)

Cause: The data reporting capabilities of the RIBridges benefit system were not fully functioning during fiscal 2018 and were not reliable to support the preparation of accurate federal reports for SNAP. There is no capability in the system for recording collections of previous over-payments other than recoupment of current benefits.

Effect: DHS did not comply with applicable federal reporting requirements for the SNAP program during fiscal 2018.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATION

2018-040 Ensure the RIBridges system provides complete and accurate data to meet all the federally required reporting for SNAP. Correct previously submitted FNS-46 reports as required.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-041 **_(material noncompliance/material weakness – repeat finding – 2017-042)_**

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) CLUSTER – CFDA 10.551 and 10.561
Federal Award Agency – Department of Agriculture
Award Year: Federal Fiscal Years 2016-2017 and 2017-2018
Federal Award Numbers: There are no award numbers for SNAP benefits
Administered by: Department of Human Services (DHS)
Compliance Requirement: Special Tests and Provisions

AUTOMATED DATA PROCESSING (ADP) SYSTEM FOR SNAP

RIBridges does not currently meet all the functional requirements of an automated data processing system as outlined in federal SNAP regulations.

Background: RIBridges is the State's federally-approved computer system used to manage multiple health care and human service programs. It was designed to allow for integrated eligibility across programs, enhanced client accessibility, and provide for periodic validation of client attested data through multiple electronic interfaces. RIBridges system operation has been problematic since implementation and efforts to address eligibility processing challenges are ongoing. Enhanced federal funding for new eligibility systems was approved to provide more efficient, economical, and effective administration of these human service programs. Administration of SNAP benefits through RIBridges began in September 2016.

Criteria: State agencies are required to automate their SNAP operations and computerize their systems for obtaining, maintaining, utilizing, and transmitting information concerning SNAP (7 CFR sections 272.10 and 277.18). This includes:

(1) processing and storing all case file information necessary for eligibility determination and benefit calculation, identifying specific elements that affect eligibility, and notifying the certification unit of cases requiring notices of case disposition, adverse action and mass change, and expiration;

(2) providing an automatic cutoff of participation for households which have not been recertified at the end of their certification period by reapplying and being determined eligible for a new period (7 CFR sections 272.10(b)(1)(iii) and 273.10(f) and (g)); and

(3) generating data necessary to meet federal issuance and reconciliation reporting requirements.

Condition: RIBridges does not currently meet all the functional requirements of an automated data processing system as outlined in federal SNAP regulations.

The U.S. Department of Agriculture – Food and Nutrition Service (FNS) provided a formal warning to the Department of Human Services (DHS) on April 16, 2018 regarding the RIBridges operating issues that negatively impacted all aspects of DHS' administration of the SNAP program.

FNS required the Department to provide a corrective action plan within 30 days to address the concerns outlined in the formal warning letter. The Department provided a detailed corrective action plan on May 15, 2018. In a letter dated July 20, 2018, FNS held the formal warning in abeyance conditional on DHS' successful completion of a series of required corrective actions including many that address, or result from, specific RIBridges deficiencies.

Additionally, due to overall RIBridges system performance issues specifically related to SNAP, a special master was appointed by the U.S. District Court in connection with litigation filed related to the timeliness of eligibility determinations and benefit delivery for SNAP applicants. Oversight by the special master continues; however, subsequent to June 30, 2018, DHS reports it is meeting the required percentage of eligibility determinations established within 30 days.

During fiscal 2018, RIBridges was not programmed to fully meet the automatic cut-off of participation for households which had not been recertified by the required date. Cases were "auto-closed" only when the client failed to return the eligibility redetermination packet timely. In other scenarios, for the quarter ending September 2017, cases remained open and continued to receive benefits even when recertification was not completed. In other scenarios, for the period October 1, 2017 through June 30, 2018, cases were not closed but benefits were suspended.

As described in *Finding 2018-042* regarding the required Electronic Benefit Transmission Reconciliation, the RIBridges eligibility system is not producing reports to allow daily reconciliation of electronic benefits authorized and disbursed and to ensure accurate and timely completion of federal reports.

Cause: Certain RIBridges functionalities were insufficiently designed and/or not fully functional in fiscal 2018 which compromised the effectiveness of the controls over the SNAP eligibility and benefit administration as well as overall federal reporting requirements and the federal issuance and reconciliation reporting requirement. Required corrective actions were identified during fiscal 2018; however, implementation of all required corrective actions continues into fiscal 2019.

Effect: The RIBridges eligibility system does not currently meet all the functional requirements of an automated data processing system as outlined in federal SNAP regulations. Consequently, controls over the determination of eligibility and establishment of benefit amounts is weakened. Benefits could be paid to ineligible individuals or benefits could be denied to eligible individuals. Controls are weakened over the daily settlement and reconciliation of EBT SNAP benefits due to incomplete RIBridges reporting.

Questioned Costs: Unknown

Valid Statistical Sampling: Not applicable

<u>RECOMMENDATION</u>

2018-041 Continue efforts to ensure that RIBridges meets all the functionalities of an automated data processing system for SNAP as required by federal SNAP regulations. Complete required corrective actions stipulated by the federal Food and Nutrition Service.

<u>Auditee views</u>: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2018-042 ***(material noncompliance/material weakness – repeat finding – 2017-043)***

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) CLUSTER – CFDA 10.551 and 10.561
Federal Award Agency – Department of Agriculture
Award Year: Federal Fiscal Years: 2016-2017 and 2017-2018
Federal Award Numbers: There are no award numbers for SNAP benefits
Administered by: Department of Human Services (DHS)
Compliance Requirement: Special Tests and Provisions

<u>ELECTRONIC BENEFIT TRANSFER (EBT) RECONCILIATION</u>

RIBridges was not producing reports in fiscal 2018 to allow daily reconciliation of electronic benefits authorized and disbursed and to ensure accurate and timely completion of federal reports. The service organization control reports obtained by DHS for vendors performing elements of the EBT process were not reviewed.

Criteria: States must have systems in place to reconcile all of the funds entering into, exiting from, and remaining in the system each day with the State's benefit account with Treasury and EBT contractor records. This includes a reconciliation of the State's issuance files of postings to recipient accounts with the EBT contractor. States (generally through the EBT contractor that operates the EBT system) must also have systems in place to reconcile retailer credit activity as reported into the banking system to client transactions maintained by the processor and to the funds drawn down from the EBT benefit account with Treasury. States' EBT system processors should maintain audit trails that document the cycle of client transactions from posting to point-of-sale transactions at retailers through settlement of retailer credits. The financial and management data that comes from the EBT processor is reconciled by the State to the SNAP issuance files and settlement data to ensure that benefits are authorized by the State and funds have been properly drawn down. States may only draw Federal funds for authorized transactions, i.e., electronic point-of-sale purchases supported by entry of a valid personal identification number (PIN) or purchases using manual vouchers with telephone verification supported by a client signature and an EBT contractor authorization number (7 CFR sections 274.3(a)(1) and 274.4(a)).

EBT system processors should maintain audit trails that document the cycle of client transactions from posting to point-of-sale transactions at retailers through settlement of retailer credits. The financial and management data that comes from the EBT processor is reconciled by the State to the SNAP issuance files and settlement data to ensure that benefits are authorized by the State and funds have been properly reflected in the State's accounting system.

The State should consider the adequacy of controls over the EBT process including components performed by external entities. Service Organization Control (SOC) reports provide assurance over security, processing integrity, confidentiality, availability and privacy. Oversight and review of these reports would ensure that the system is protected against unauthorized access, system processing is complete, accurate, timely, and authorized, information designed as confidential is protected, the system is available for operation and use as contractually agreed, and information is collected, used, retained, disclosed and disposed of in conformity of agreements.

Condition: The State did not perform required daily reconciliations of EBT activity during fiscal 2018 - no reconciliations were performed until September 2018.

The USDA's Food and Nutrition Service performed a fiscal 2017 Electronic Benefits Transfer review and issued their report dated March 2, 2018. That report highlighted deficiencies in the required reconciliation of EBT activity between the various systems utilized to authorize and disburse benefits. The report's recommendations were not implemented before June 30, 2018.

The agency has requested and gathered Service Organization Control (SOC) reports for the EBT system components operated by external parties, however, there is no review of the reports or consideration of the complementary user entity controls identified therein. Two SOC reports were available to DHS from EBT system vendors to facilitate monitoring, assessing, and ensuring security and compliance of the EBT system. The agency should make appropriate use of external system reports and reviews whenever available.

Cause: RIBridges does not provide adequate reporting to allow the required daily reconciliation. DHS staff have not fully assessed the information required from RIBridges to perform the daily reconciliation required by SNAP regulation.

Effect: Controls are weakened over the daily settlement and reconciliation of EBT SNAP benefits due to incomplete RIBridges reporting. Differences between RIBridges and the EBT system could go undetected.

Failure to review and utilize SOC reports for vendors performing critical process elements and incomplete consideration of complementary user entity controls of the EBT system increases the risk of exposure to security vulnerabilities and untimely identification of vendor contractual noncompliance or system defects.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATIONS

2018-042a Complete efforts to ensure that the RIBridges systems development vendor implements all designed system features including those for the SNAP benefit issuance and reconciliation requirements.

2018-042b Review the Service Organization Control (SOC) reports provided by vendors to evaluate IT security monitoring over the external components of the EBT systems.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2018-043	***(significant deficiency – new finding)***

CHILD NUTRITION CLUSTER – CFDA 10.553, 10.555, 10.556 and 10.559
Federal Award Agency: US Department of Agriculture (USDA)
Award Year: Federal Fiscal Year 2017-2018
Federal Award Number: 4RI30306
Administered by: Department of Education (RIDE)
Compliance Requirement: Subrecipient Monitoring

ADMINISTRATIVE REVIEWS OF SCHOOL FOOD AUTHORITIES

RIDE needs to increase efforts to comply with the requirement to perform administrative reviews of all School Food Authorities every 3 years.

Background: State agencies administering the National School Lunch and School Breakfast programs (NSLP and SBP, respectively) are required to perform comprehensive on-site evaluations of all School Food Authorities (SFAs) operating these programs (these evaluations are known as administrative reviews). Beginning with the 2013 – 2014 school year, every SFA must receive an administrative review once in a 3-year cycle (the review cycle had previously been every 5 years).

Criteria: 7 CFR 210.18c requires RIDE to conduct administrative reviews of all SFAs participating in the NSLP and SBP at least once during a 3-year review cycle.

Condition: The USDA conducted a management evaluation of RIDE in September 2017 which included a review of its first 3-year administrative review cycle (school years 2013-2014 to 2015-2016). The resulting report indicated that it was "unable to determine compliance with the requirement that all participating SFAs received an administrative review within this first 3-year cycle". There are currently 77 SFAs participating in the Rhode Island NSLP and SBP and RIDE prepared a schedule of Administrative Reviews to cover all these SFAs during the second 3-year schedule (school years 2016-2017 to 2018-2019). More than 33 months into this 3-year cycle, however, RIDE has closed out only 50 of the 77 administrative reviews required (as of the last date of our fieldwork). The other 27 reviews have yet to begin.

Cause: RIDE has experienced staff departures and unfilled positions for various periods of time that have impacted compliance with the administrative review schedule for School Food Authorities.

Effect: RIDE cannot provide assurances that all SFAs have complied with the laws and regulations governing the NSLB and SBP.

Questioned Costs: None

Valid Statistical Sampling: Not applicable

RECOMMENDATION

2018-043 Devote sufficient resources to ensure that all School Food Authorities are subject to administrative reviews every 3 years.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2018-044 ***(significant deficiency – repeat finding – 2015-028)***

CHILD NUTRITION CLUSTER – CFDA 10.553, 10.555, 10.556 and 10.559
Federal Award Agency: US Department of Agriculture (USDA)
Award Year: Federal Fiscal Year 2017-2018
Federal Award Number: 4RI30306
Administered by: Department of Corrections (DOC)
Compliance Requirement: Special Tests and Provisions

ACCOUNTABILITY FOR USDA-DONATED FOODS

The Department of Corrections needs to ensure that it complies with federal regulations governing the receipt, distribution and inventory of USDA-Donated Foods.

Background: DOC receives USDA-Donated Foods for use in the Child Nutrition Cluster programs. These foods are stored in the state warehouse and distributed to eligible local educational agencies. DOC is responsible for maintaining a complete accounting of all such receipts and distributions.

Criteria: 7 CFR section 250.16 requires DOC to maintain accurate and complete records with respect to the receipt, distribution/use and inventory of donated foods. In addition, 7 CFR section 250.14(e) requires DOC to take an annual physical inventory of its storage facility and reconcile the results with its inventory records.

Condition: DOC performed a physical inventory in June 2018. In sum, there were 12 types of donated commodities in inventory that were available for use in the Child Nutrition Cluster programs. The physical count revealed that 8 of the 12 items sampled did not match amounts recorded in the inventory records. In some instances, the number of items on hand was less than recorded in the inventory records. Conversely, there were other instances where the physical count showed more items on hand than reflected in the inventory system. The discrepancies ranged from 2 to 118 cases.

Cause: The inventory system software is not functioning as intended.

Effect: DOC cannot accurately account for the donated commodities.

Questioned Costs: None

Valid Statistical Sampling: Not applicable

RECOMMENDATION

2018-044 Improve the functionality of the software used to account for USDA-Donated Foods to ensure compliance with federal regulations.

***Auditee views:* The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-045	***(noncompliance or other matter – new finding)***

HOME INVESTMENT PARTNERSHIPS PROGRAM (CFDA 14.239)
Federal Award Agency – Department of Housing and Urban Development
Award Years: Various
Federal Award Numbers: Various
Administered by: Rhode Island Housing and Mortgage Finance Corporation (RIHMFC)
Compliance Requirement: Performance Reporting

RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION – PERFORMANCE REPORTING

Criteria: HUD Form 60002 is required to be filed annually by within 90 days of the end of the grant term.

Condition: HUD Form 60002 was not filed in a timely manner.

Cause: Unknown.

Effect: The effect is lack of timely reporting to HUD.

Questioned Costs: None

Valid Statistical Sampling: Not applicable

RECOMMENDATION

2018-045 We recommend that HUD Form 60002 be filed in a timely manner.

***Auditee views:* The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-046	***(significant deficiency – new finding)***

EQUITABLE SHARING PROGRAM – CFDA 16.922
Federal Awarding Agency: US Department of Justice, Criminal Division
Federal Fiscal Year: Not Applicable
Federal Award Numbers: Not Applicable
Administered by: RI State Police, RI Department of Attorney General and RI National Guard.
Compliance Requirement: Reporting

FEDERAL REPORTING – EQUITY SHARING AGREEMENT AND CERTIFICATION (ESAC) REPORT

The State can enhance uniform procedures to ensure compliance with the reporting requirements of the Equitable Sharing Program when preparing the annual Equity Sharing Agreement and Certification (ESAC) Report.

Background: The Equity Sharing Agreement and Certification Report (ESAC) serves as each agency's annual affidavit and details the agency's receipts and expenditures of equitably shared funds for both the Department of Justice and the Department of the Treasury Equitable Sharing Programs.

Criteria: Federal regulations {Sections X. A., of the Guide to Equitable Sharing for State and Local Law Enforcement Agencies (April 2009)} provide that the state or local participating law enforcement agency must annually submit to AFMLS a signed Equitable Sharing Agreement and Certification form. The Equitable Sharing Agreement User's Guide provides guidance on preparing and submitting the annual ESAC report.

Condition: The Office of the Attorney General did not prepare the fiscal 2018 annual ESAC report in accordance with reporting/compliance requirements set forth in the Guide to Equity Sharing for State and Local Law Enforcement Agencies. The report included accrued expenditures (as consistent with amounts included in the State's RIFANS accounting system) instead of the cash basis expenditure amounts required by the Equitable Sharing program reporting guidelines.

Cause: During fiscal 2018, the State did not have uniform procedures in place to ensure that the annual Equity Sharing and Certification Report (ESAC) was prepared consistent with program guidelines. Subsequent to June 30, 2018, the State has developed procedures for the preparation of the ESAC report which, among other things, identifies the appropriate state accounting source to prepare the report and reflect program expenditures on the cash basis.

Effect: The annual 2018 ESAC report for the Office of Attorney General included additional accrued expenditures for fiscal 2018 as it was not prepared on the cash basis in accordance with program guidelines.

Questioned Costs: None

Valid Statistical Sampling: Not applicable

RECOMMENDATION

2018-046 Prepare the annual Equity Sharing Agreement and Certification Report using the cash basis of accounting. Follow the procedures developed to provide uniform guidance to agencies preparing the annual ESAC reports.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2018-047 ***(material non-compliance/material weakness – repeat finding – 2017-048)***

UNEMPLOYMENT INSURANCE – CFDA – 17.225
Federal Awarding Agency: US Department of Labor / Employment and Training Administration
Federal Fiscal Year: Not Applicable
Federal Award Numbers: Not Applicable – Direct Payments with Unrestricted Use Funded through US Treasury Trust Fund
Administered by: Department of Labor and Training (DLT)
Compliance Requirement: Special Tests and Provisions

UNEMPLOYMENT INSURANCE PROGRAM INTEGRITY – BENEFIT OVERPAYMENTS

The Department of Labor and Training (DLT) did not make the necessary changes to its system to allow for the imposition of penalties on overpayments due to fraud, and to prohibit relief from charges to an employer's UC account when the overpayment was the result of the employer failure to respond timely or adequately to a request for information.

Criteria: Federal law provides that (1) States are required to impose a monetary penalty (not less than 15 percent) on claimants whose fraudulent acts resulted in overpayments and deposit the funds in the State's account in the Unemployment Trust Fund, and (2) States are prohibited from providing relief from charges to an employer's UC account when overpayments are the result of the employer's failure to respond timely or adequately to a request for information.

Pub. L. No. 112-40, enacted on October 21, 2011, and effective October 21, 2013, amended sections 303(a) and 453A of the Social Security Act and sections 3303, 3304, and 3309 of the Federal Employment Tax Act (FUTA) to improve program integrity and reduce overpayments. (See UIPL Nos. 02-12, and 02-12, Change 1).

In compliance with federal law, the State enacted these requirements into State law effective October 1, 2013, including a 15% penalty on overpayments due to claimant fraud (RIGL 28-42- 62.1(a)(4)) and a prohibition on relieving the employer's account of charges relating to any benefit overpayments made if the employer was at fault for failure to respond timely or adequately to a request of the department for information relating to the claim (RIGL 28-43-3(2)(viii)).

Condition: We tested a random sample of 25 benefit overpayments during fiscal 2018 to determine if the State was properly identifying and handling overpayments, including, as applicable, assessment of the 15% penalty on claimants who commit fraud, and not relieving an employer's account of charges for overpayments when their untimely or inaccurate responses cause improper payments. We found that:

- 16 overpayments were classified as claimant fraud. However, none of these individuals were assessed the 15% penalty as required by federal and state law, and

- Employer fault was not identified as a cause of any of the 25 overpayments.

Cause: DLT management advised us that UI computer system programming changes to effect penalties were not implemented due to the anticipated implementation of a new benefit computer system. Due to implementation delays, DLT is programming the existing benefit system to impose penalties for overpayments due to fraud and anticipates moving the programming changes into production in the first quarter of 2020.

Effect: Noncompliance with federal and State law.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATION

2018-047 Adopt procedures to: (1) impose and collect a 15% penalty on benefit Overpayments of claimants who commit fraud (RIGL 28-42-62.1(a)(4)) and (2) prohibit providing relief to an employer account when an overpayment is the result of the employer's failure to respond timely or adequately to a request for information by the State agency (RIGL 28-43-3(2)(viii)).

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-048	***(significant deficiency – new finding)***

UNEMPLOYMENT INSURANCE – CFDA – 17.225
Federal Awarding Agency: US Department of Labor / ETA Division of Federal Assistance Award
Years: Federal Fiscal Years 2014, 2015, 2016, 2017 and 2018
Federal Award Numbers: UI-28001-16-55-A-44, UI-29921-17-55-A-44, TA-25312-14-55-A-44, TA-26749-15-55-A-44 and TA-28075-16-55-A-44.
Administered by: Department of Labor and Training (DLT)
Compliance Requirement: Reporting

FEDERAL PERFORMANCE REPORTING – TRADE ACT PARTICIPANT REPORT/PARTICIPANT INDIVIDUAL RECORD LAYOUT REPORT

The Department of Labor and Training (DLT) can enhance controls over preparation of the TAPR/PIRL performance report required for the Unemployment Insurance Program by reconciling similar data included on multiple reports prior to submission.

Background: The quarterly Participant Individual Record Layout Report (PIRL)/Trade Act Participant Report (TAPR) details trade assistance provided to participants and their employment and wage information. The report is prepared from client data maintained within DLT's employment services computer system and wage information obtained from DLT's Wage Record computer system. All data is electronically populated in the PIRL/TAPR report by a contractor that maintains the employment services computer system. DLT Workforce Development Service Reporting Unit staff reviews the PIRL/TAPR for reasonableness and obvious errors and submits the report electronically to the US Department of Labor.

Criteria: Trade Act Participant Report (TAPR) (OMSB No. 1205-0392) TAPR – SWAs are required to submit quarterly reports on participant characteristics, services and benefits received, and outcomes achieved on a rolling four-quarter basis (TEGL No. 6-09). This requires DLT to report each participant's wages for the three quarters prior to participation and the four quarters after the exit quarter. (The TAPR report was replaced with the PIRL report beginning with the quarter ended December 31, 2018 (TEGL 22-15 and TEN 08-06).

Condition: For a sample of 20 participants reported in the PIRL for the quarter ended March 31, 2018 and 20 participants reported in the PIRL for the quarter ended June 30, 2018, we compared the wages reported in the PIRL with the wages in the PIRL with the wages in the DLT wage record system to determine that actual participant wages were properly reported. We found that the wages for 3 of the participants in the March quarter and 3 participants in the June quarter did not agree to the wages in the DLT wage record system.

Cause: Unknown

Effect: Incomplete/inaccurate reporting of required wage data.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATION

2018-048 Investigate the cause of the incorrect wages and take corrective action to strengthen controls to ensure that participant wages are properly reported. Submit the corrected federal report(s) as necessary.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-049	***(significant deficiency – repeat finding – 2017-051)***

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER – CFDA 20.205 and 20.219
Federal Award Agency: US Federal Highway Administration (FHWA)
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Department of Transportation (RIDOT)
Compliance Requirement: Special Tests and Provisions

QUALITY ASSURANCE PROGRAM - MATERIALS TESTING

RIDOT should further enhance its quality assurance program to ensure that required materials tests are performed and documented consistent with federal regulation and RIDOT policy.

Background: RIDOT operates an FHWA approved quality assurance program; however, we observed opportunities for the department to enhance controls over its operation, implement efficiencies, and improve coordination within divisions with the overall goal of ensuring that materials and workmanship generally conform to approved plans and specifications. RIDOT has made policy changes in response to prior year recommendations with varying degrees of success.

Criteria: Federal regulations (23 CFR 637.205) require that state transportation departments have a sampling and testing program for construction projects to ensure that materials and workmanship generally conform to approved plans and specifications, including approved changes. The program must meet the criteria in §637.207 and be approved by the FHWA.

RIDOT's policy requires that materials test results be documented and available at each construction site office, which is the responsibility of the project Resident Engineer.

Condition: For fiscal 2018, we tested 74 materials tests related to 32 projects. While obtaining an understanding of the controls in place over the Departments quality assurance program and on visits to various construction sites, we identified deficiencies in controls that increase the risk of the Department not complying with 23 CFR 637.205.

The Department has documented its procedures related to construction project in the Procedures for Uniform Record Keeping (PURK) manual. The purpose of the PURK manual is to provide a standard method of maintaining project records for all construction projects. On an ongoing basis the Department makes changes to its policies and procedures, however the PURK manual does not include all the changes. The manual is a living document which must be updated based on industry standards. Currently, the PURK manual is maintained electronically on the Department's website, in draft form, based on the 2016 revision.

The Department's material testing process is broken down into 2 separate and distinct categories, standard items and non-standard items. Standard items are those which are used consistently regardless of the construction project, the items have pre-assigned item number and testing requirement. The testing requirements have been approved by FHWA and is included in the Master Schedule of Testing (MST). Non-Standard items do not have pre-assigned item number or testing requirement. The Construction, Materials and Scoping sections must coordinate, identify and approve the test requirements. However, there are no written policies, procedures or controls to ensure that non-standard items are assigned the proper tests. Of the 74 required tests, 6 relate to non-standard items, which were linked to standard tests without any documentation verifying the 3 sections concurred that the tests performed were proper. Upon request the Department confirmed in writing to us that the tests performed were adequate for the designed purpose and use of those materials.

The challenge in this and prior audits is discerning that the test results provided by RIDOT correspond to a specific material, delivery interval, and contract due to the lack of consistent cross-referencing between the material (item number) and the test results. There has been some progress in this area but there are still issues when testing stockpiled materials, which can be used at different times, places and for different purposes.

In one instance the material failed the required test and the Resident Engineer made the sole determination to leave the material in place which is specifically not allowed by the PURK manual. The PURK manual requires the Resident engineer to obtain approval of the Administrator of Construction Operations to leave a rejected item in place. The Department contends that the documentation supporting the Administrators of Construction Operations concurrence with leaving the material in place is performed at the end of the construction project by completing and signing the Rejected Listing (Material Left In Place) form. At the time of the audit the construction project was not completed and there was no evidence that the Administrator of Construction Operations concurred with leaving the material in place. Leaving rejected materials in place could be difficult to replace once the construction project is completed. The Department does not have a policy to document whether the Design Engineer of record concurs with the decision to leave the rejected materials in place or conclude that the rejected material has a structural effect.

RIDOT has not implemented procedures to modify the Project Materials Test Book for project change orders – generally as quantities change so do the number of required materials tests. Currently, there are no addendums to the Project Materials Test Book when change orders are approved.

Cause: There is a lack of coordination and communication among the three RIDOT sections (Materials, Construction, and Scoping) which all have an equal responsibility related to the Quality Assurance Program. Each section implements policy without necessarily coordinating and considering the impact on the overall Quality Assurance Program.

The PURK manual has not been updated to reflect various Department memorandums communicating changes in construction policies. The policies and changes need to be incorporated into the PURK manual on an ongoing basis.

Creation of the Project Materials Test Book has been computerized but still requires significant manual intervention. Users may modify testing requirements in the project specific Materials Test Book (within the MTS Module) without approval. Additionally, in some instances, non-standard items (specialty items) are assigned testing requirements by staff creating the Project Materials Test Book. These staff members may not have the specific engineering training or experience to assign the appropriate materials test.

Effect: Controls over the quality assurance program can be enhanced to ensure materials used in the construction of roads and bridges meet RIDOT's and FHWA standards.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATIONS

2018-049a Update the Procedures for Uniform Record Keeping (PURK) manual to include all current policies and procedures. Maintain and distribute a completed and updated PURK manual electronically.

2018-049b Enhance coordination among the three sections of RIDOT that have shared responsibility for the overall operation of the Department's Quality Assurance Program.

2018-049c Implement a single department-wide information technology solution to ensure the Quality Assurance Testing is timely, reliable and available to the Resident Engineers responsible for projects and to enhance overall departmental efficiencies.

2018-049d Enforce existing policies designed to better link testing results to projects by establishing a uniform file naming convention for test results shared on the RIDOT network.

2018-049e Document policies, procedures and controls to ensure the materials test book is updated for change orders (i.e. changes in quantities).

2018-049f Train all project-related staff, scoping through closeout, as to the requirements of 23 CFR 637.205 and the Department's related policies, procedures and controls. Establish a plan of self-testing (e.g., internal audit) of the Department's policies, procedures and controls to ensure compliance with the required Quality Assurance Program.

***Auditee views:* The auditee disagrees in part with the implementation status of certain recommendations included in this finding – see Corrective Action Plan in Section E.**

***Auditor response:* We believe efforts have been taken to implement certain of the recommendations included in this finding but full implementation has not been achieved.**

Finding 2018-050 ***(significant deficiency - repeat finding – 2017-053)***

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER – CFDA 20.205 and 20.219
Federal Award Agency: US Federal Highway Administration
Award Years: Various
Federal Award Number: None
Administered by: Rhode Island Department of Transportation (RIDOT)
Compliance Requirement: Special Tests and Provisions

VALUE ENGINEERING

RIDOT can improve compliance with federal requirements relating to value engineering analyses by including all the required elements in its value engineering policy. RIDOT can improve compliance with federal requirements relating to value engineering analyses by establishing a control structure in accordance with 2 CFR 200.

Background: State transportation departments must perform a Value Engineering (VE) analysis on all applicable projects and incorporate all resulting, approved recommendations into the plans, specifications and estimates. Applicable projects generally include those with an estimated total project cost of $50 million or more ($40 million for bridge projects) that utilize federal-aid highway program funding.

Criteria: Federal Regulation 23 CFR 627 requires RIDOT to have and implement a Value Engineering analysis policy. The federal regulation indicates many requirements to include:

- 627.5(f) VE analysis if delivered using CM/GC contracting method
- 627.9(d) For projects delivered using CM/GC contracting method, VE analysis is not required prior to the preparation and release of the RFP for the CM/GC contract.
- 627.9(e)(3)(vii) Report must include - VE report retention policy (3 years)
- 627.9(g) Use of qualified consultants and ensure no conflict of interest by State or LPA
- 627.9(i) Proposals to accelerate construction after the contract award will not be considered a VECP and will not be eligible for FHWA participation.

Condition: We noted that RIDOT's Value Engineering policy does not include 5 of the 31 requirements as outlined in 23 CFR 627, although we acknowledge that the policy was approved by FHWA in May 2016.

Cause: RIDOT’s drafting of its value engineering policy did not include all the required elements outlined in 23 CFR 627.

Effect: The Value engineering policy and related controls established by the Department are not sufficient to ensure the Value Engineering Program is in compliance with 23 CFR 627.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATION

2018-050 Enhance the Value Engineering analysis policies to include all requirements contained in 23 CFR 627 and maintain effective controls to ensure compliance with the Value Engineering analysis requirement contained in 23 CFR 627.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2018-051 ***(material weakness – new finding)***

FEDERAL TRANSIT CLUSTER – CFDA 20.500, 20.507, and 20.526
Federal Award Agency – Department of Transportation
Award Years: 2017 and 2018
Federal Award Numbers: RI2017-004; RI2018-002
Administered by: Rhode Island Public Transit Authority (RIPTA)
Compliance Requirement: Allowable Costs/Cost Principles

RHODE ISLAND PUBLIC TRANSIT AUTHORITY – ALLOWABLE COSTS/COST PRINCIPLES

Criteria: Cost principles require that charges to federal award programs be supported by appropriate documentation including approved requisitions, vendor invoices or other documentation.

Condition: During our testing of internal controls, we noted that documentation for two service reimbursements to RIPTA's operating fund contained errors resulting in the incorrect calculation of the reimbursement amount.

Cause: The spreadsheets RIPTA used to calculate the service reimbursements to RIPTA's operating fund contained errors.

Effect: The service reimbursement amount included in RIPTA's documentation was incorrect.

Questioned Costs: None

Valid Statistical Sampling: Not Applicable

RECOMMENDATION

2018-051 We recommend that RIPTA ensure an individual independent of the reimbursement preparation process perform a detailed review of all service reimbursements and approve the reimbursement request prior to being submitted to the FTA.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2018-052 ***(significant deficiency – new finding)***

FEDERAL TRANSIT CLUSTER – CFDA 20.500, 20.507, and 20.526
Federal Award Agency – Department of Transportation
Award Years: 2017
Federal Award Numbers: RI2017-003
Administered by: Rhode Island Public Transit Authority (RIPTA)
Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Performance

REQUISITION LACKING INDICATION OF APPROPRIATE APPROVAL

One requisition tested was found with no indication of approval by the appropriate personnel in the Planning department.

Criteria: An entity is responsible for establishing and maintaining effective internal controls over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal award programs. In addition, cost principles require that charges to federal award programs be supported by appropriate documentation including approved requisitions, vendor invoices or other documentation.

Condition: RIPTA has internal control policies and procedures in place to ensure compliance with activities allowed or unallowed, allowable costs/cost principles, and period of performance requirements. RIPTA's internal control procedure to ensure compliance with these requirements is the approving initials of the Executive Director of Planning or his/her designee and approving initials of the Executive Director of Finance and Budget or his/her designee of the capital supply or operating requisition. During our testing of internal controls, we noted that for one of the forty transactions selected there was no indication on the requisition that it had been approved by the Planning department.

Cause: The RIPTA Planning department did not approve the requisition.

Effect: RIPTA processed the disbursement without proper approvals

Questioned Costs: None

Valid Statistical Sampling: Not Applicable

RECOMMENDATION

2018-052 We recommend that RIPTA ensure a properly approved requisition form is prepared for all federal awards program expenses to ensure proper documentation of the internal control policies and procedures related to activities allowed or unallowed, allowable costs/cost principles, and period of performance compliance requirements.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-053	***(significant deficiency – new finding)***

FEDERAL TRANSIT CLUSTER – CFDA 20.500, 20.507, and 20.526
Federal Award Agency – Department of Transportation
Award Years: 2017
Federal Award Numbers: RI2017-003
Administered by: Rhode Island Public Transit Authority (RIPTA)
Compliance Requirement: Procurement

NON-COMPETITIVE PROCUREMENT NOT SUFFICIENTLY DOCUMENTED

A non-construction procurement greater than $5,000 was not sufficiently documented as to why it was not competitively bid, as is required by State law.

Criteria: States are required to purchase goods and services charged to federal awards in accordance with the laws and regulations used for procurements with non-federal entities. Rhode Island laws require that non-construction procurements over $5,000 and construction procurements over $10,000 be competitively bid. If an item meeting these criteria cannot be competitively bid, the reason must be properly documented.

Condition: During our testing of internal controls, we noted one transaction over $5,000 that was not competitively bid, however, RIPTA had no documentation on file substantiating the reasons why the service was not bid.

Cause: RIPTA did not prepare proper documentation substantiating the reasons why the service was not bid.

Effect: RIPTA had no documentation was on file substantiating the reasons why the service was not bid.

Questioned Costs: None

Valid Statistical Sampling: Not Applicable

RECOMMENDATION

2018-053 We recommend that RIPTA properly document non-competitive procurements in accordance with its procurement policies and procedures and State laws and regulations.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2018-054 *(material weakness – new finding)*

FEDERAL TRANSIT CLUSTER – CFDA 20.500, 20.507, and 20.526
Federal Award Agency – Department of Transportation
Award Years: 2017
Federal Award Numbers: RI2017-003
Administered by: Rhode Island Public Transit Authority (RIPTA)
Compliance Requirement: Suspension and Debarment

ENTITIES CONTRACTED AS NON-COMPETITIVE PROCUREMENTS NOT VERIFIED THAT SAID ENTITY IS NOT DEBARRED, SUSPENDED OR OTHERWISE EXCLUDED

There is no specific procedure in place to verify that entities entering into a covered transaction that was not competitively bid were not debarred, suspended, or otherwise excluded.

Criteria: When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity, as defined in 2 CFR Section 180.995 and agency adopted regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. "Covered transactions" include contracts for goods and services awarded under a non-procurement transaction (e.g. grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain criteria as specified in 2 CFR Section 180.220.

Condition: RIPTA does not have a specific procedure in place for transactions that are not competitively bid (e.g. sole source contracts) verifying that an entity with which it plans to enter into a covered transaction is not debarred, suspended or otherwise excluded. During our testing of internal controls, we noted that four sole source contracts had no documentation that RIPTA had verified that the vendor was not debarred, suspended or otherwise excluded.

Cause: RIPTA does not have a specific procedure in place for transactions that are not competitively bid (e.g. sole source contracts) verifying that an entity with which it plans to enter into a covered transaction is not debarred, suspended or otherwise excluded.

Effect: RIPTA did not verify the vendor was not debarred, suspended or otherwise excluded.

Questioned Costs: None

Valid Statistical Sampling: Not Applicable

RECOMMENDATION

2018-054 We recommend that RIPTA implement procedures to verify that all entities with which it plans to enter into a covered transaction are not debarred, suspended or otherwise excluded.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2018-055 *(significant deficiency – new finding)*

FEDERAL TRANSIT CLUSTER – CFDA 20.500, 20.507, and 20.526
Federal Award Agency – Department of Transportation
Award Years: 2010 and 2018
Federal Award Numbers: RI90-X058; RI2018-002
Administered by: Rhode Island Public Transit Authority (RIPTA)
Compliance Requirement: Reporting

FINANCIAL REPORTS NOT SIGNED FOR APPROVAL PRIOR TO SUBMISSION

One financial report was not signed for approval by the Executive Director of Finance and Budget prior to submission to the FTA.

Criteria: An entity is responsible for establishing and maintaining effective internal controls over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal award programs. FTA Circular 5010 requires that accurate, timely financial reports be prepared based on supporting documentation maintained in the grantee's official financial management system.

Condition: RIPTA has internal control policies and procedures in place to ensure compliance with reporting requirements. RIPTA's internal control procedure to ensure compliance with these requirements is the signature of the Executive Director of Finance and Budget indicating the review and approval of financial reports prior to submission to the FTA. During our testing of controls, we noted that one of the twenty-three financial reports selected was not approved by the Executive Director of Finance and Budget. We also noted one instance where the financial report, was filed with an immaterial error.

Cause: RIPTA did not approve a financial report and RIPTA made a data entry error when filing a financial report.

Effect: RIPTA filed a financial report that was not properly approved and RIPTA filed a financial report with an immaterial error.

Questioned Costs: None

Valid Statistical Sampling: Not Applicable

RECOMMENDATION

2018-055 We recommend that RIPTA ensure the financial reports are approved by the Executive Director of Finance and Budget prior to submission and that the supporting documentation agrees to the financial report submitted. We also recommend that more care be taken when entering data to the FTA reporting system.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-056 ***(material noncompliance/material weakness – repeat finding – 2017-064)***

TANF CLUSTER - CFDA 93.558
Federal Award Agency: Department of Health and Human Services, Administration for Children and Families
Award Years: 2016-2017 and 2017-2018
Federal Award Numbers: G1702RITANF and G1802RITANF
Administered by: Department of Human Services (DHS)
Compliance Requirement: Eligibility

TANF ELIGIBILITY – RIBRIDGES

Due to the limited operation and effectiveness of controls over eligibility for the TANF program during fiscal 2018, the State did not comply with the TANF eligibility requirements, collectively.

Background: RIBridges is the State's federally-approved computer system used to manage multiple health care and human service programs. It was designed to allow for integrated eligibility across programs, enhanced client accessibility, and provide for periodic validation of client attested data through multiple electronic interfaces. RIBridges system operation has been problematic since implementation and efforts to address eligibility processing challenges are ongoing. Enhanced federal funding for new eligibility systems was approved to provide more efficient, economical, and effective administration of these human service programs. Eligibility for TANF was determined through RIBridges beginning in September 2016.

Criteria: Federal regulation 45 CFR 260.20 requires that a family be needy in order to be eligible for TANF Cluster assistance and job preparation services. Federal regulation 45 CFR 205.60(a) requires (the state agency) "to maintain records to support eligibility, including facts to support the client's need for assistance. The state's policies and procedures require that documentation used to verify eligibility be maintained in the case file."

Condition: Operational and control deficiencies resulting from the RIBridges system implementation resulted in control deficiencies over compliance with eligibility requirements for the TANF program.

Sufficient documentation to support eligibility in many cases tested was lacking in RIBridges during fiscal 2018. RIBridges lacks sufficient historical case data to evaluate past eligibility determinations, especially for client attested data and external resource panel results which only provide current data reported in the system.

Population (Eligible Cases)	Sample Size	Number of Exceptions	Error Rate	Known Questioned Costs
51,941	52	1 – incorrect eligibility determination	2%	$674
		38 – documentation deficiencies (cases)	73%	undetermined

Exceptions represent instances where eligibility was (1) inconsistent with information available case information within RIBridges or (2) inadequately supported by documentation available within RIBridges.

(1) Instances involving incorrect eligibility determination:

- One case was sanctioned for child support non-cooperation but remained open for longer than 3 months before closure. Questioned costs are for the benefits paid after 3 months.

(2) Documentation deficiencies noted include:

- Lack of signed applications scanned to the system (3 instances).
- Lack of identification documents for all household members scanned into the case (33 instances). Four cases contained individuals whose social security numbers were not verified by the SSA interface.
- No documentation scanned to support earned income recorded in the system (1 earned and 2 unearned income).
- In four cases, we could not validate the benefit amount due to insufficient RIBridges documentation available (e.g., inability to access certain RIBridges screens, information could not be found, or error messages within RIBridges).

Designed interfaces to periodically validate client income for continued eligibility were not implemented or operational during fiscal 2018 which compromised the effectiveness of and controls over the eligibility determination process. This is more fully described in *Finding 2018-059* - *INCOME ELIGIBILITY AND VERIFICATION SYSTEM (IEVS).*

All work eligible parents who receive cash assistance must enter into and comply with an employment plan to prepare for and enter employment as soon as possible. RIBridges did not prompt employment and career advisors to update/develop new work participation plans for clients upon the expiration of an existing plan. This is more fully described in *Finding 2018-058 – WORK VERIFICATION PLANS.*

Cause: All RIBridges designed eligibility components were not fully functional in fiscal 2018 which compromised the effectiveness of the controls over the TANF eligibility determination process.

Effect: Ineffective controls over the eligibility process for TANF. Potential for payment of benefits to ineligible families and/or payment of incorrect benefit amounts.

Questioned Costs: $674

Valid Statistical Sampling: Yes

RECOMMENDATIONS

2018-056a Continue efforts to ensure that the RIBridges systems development vendor implements all designed system features.

2018-056b Enhance controls to ensure all required documentation to support eligibility determination, including sufficient historical case data, is retained in the electronic case record and/or supported by scanned documentation.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-057	***(material weakness – repeat finding – 2017-065)***

TANF CLUSTER - CFDA 93.558
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Year: 2016-2017 and 2017-2018
Federal Award Number: G1702RITANF and G1802RITANF
Administered by: Department of Human Services (DHS)
Compliance Requirement: Reporting

TANF – FEDERAL REPORTING

Operation of the RIBridges benefit system affected the availability and reliability of data needed to prepare timely and accurate federal reports.

Criteria: ACF-196R, *TANF Financial Report (OMB No. 0970-0446)*– is filed quarterly on the State's use of federal TANF funds.

ACF-199, *TANF Data Report* (*OMB No. 0970-0338*) (*OMB No. 0970-0215*) (65 FR 8545, Appendix A, February 18, 2000) is filed quarterly to provide TANF case data.

Timely reconciliation of benefits between the EBT system, RIBridges and the State's accounting system ensures all benefits paid were properly reflected in the accounting system.

Condition: *TANF Financial Report* - during fiscal 2018, DHS was addressing various issues which it believed resulted in inconsistent cost allocations to federal programs, including TANF, through its departmental cost allocation plan. DHS retrained employees regarding the random moment time study process and instructed the cost allocation plan vendor to revise quarterly cost allocation reports to more appropriately reflect worker efforts. Federal financial reports prepared and submitted during fiscal 2018 were a composite of initial and revised cost allocation data including state accounting system adjustments that reflected the initial and later revised costs allocation data. This created timing differences and resulted in control weaknesses over federal report preparation.

TANF Data Report - various issues with the implementation of RIBridges resulted in problems with the transmission of data to DHHS – Administration for Children and Families (ACF). The Department provided its initial transmission of data on time but made additional revised transmissions of previously submitted quarters in 2016 and 2017 as RIBridges system data improved. The 2018 reports were subsequently revised in 2019. The report is created by and transmitted to ACF by the RIBridges developer. There is no verification performed by DHS to determine if the report is complete.

A comparison of the originally submitted TANF Data Report for the quarter ended June 30, 2018 to the revised report highlighted changes in the number of records reported (both additions and deletions), total benefits paid was decreased by $14,485, and 4,756 records had changes in one or more data elements. We also noted instances where manual benefits or supplemental payments were not included on the data file.

DHS does not reconcile the amount of benefits paid per their EBT system to the accounting system used for financial reporting. A daily report from the EBT system is used to record expenditures and request federal funds, but no subsequent reconciliation is performed to verify that all expenditures are accurately recorded in RIFANS. A monthly system report is used to report benefit expenditures on the financial report, but this report is not compared to the daily reports, or the amounts recorded in RIFANS.

Cause: Oversight of the newly implemented cost allocation plan was impacted by vacancies in key departmental financial positions and the challenges of implementing the new RIBridges system.

RIBridges data reporting functionalities were deficient during fiscal 2018 which impacted the preparation of the data transmission files which constitute the ACF-199 TANF Data report.

TANF benefit reconciliation procedures have not been implemented.

Effect: Financial reports and data transmissions of case data may be inaccurate. Utilizing RIFANS instead of the cost allocation plan for financial reporting affects the timing and accuracy of departmental indirect costs charged to the program.

Errors in the daily recording of expenditures and draws could occur and go undetected, resulting in inaccurate expenditures in the state accounting system and thereby inaccurate draws of federal funds and financial reporting.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATIONS

2018-057a Ensure consistent and timely operation of the departmental cost allocation system to allow appropriate allocation of shared costs to multiple federal programs including TANF. Report administrative expenditures consistently based on the data resulting from the approved cost allocation plan system.

2018-057b Continue efforts to improve the reliability of RIBridges data reporting to allow timely and accurate federal reporting of TANF case data.

2018-057c Reconcile the benefits paid via the EBT system, RIBridges and RIFANS at least monthly.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-058 ***(material weakness – repeat finding – 2017-066)***

TANF CLUSTER - CFDA 93.558
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Year 2016-2017 and 2017-2018
Federal Award Number: G1702RITANF and G1802RITANF
Administered by: Department of Human Services (DHS)
Compliance Requirement: Special Tests and Provisions

WORK VERIFICATION PLANS

RIBridges did not prompt employment and career advisors to update/develop new work participation plans for clients upon the expiration of an existing plan.

Background: All work eligible parents who receive cash assistance must enter into and comply with an employment plan to prepare for and enter employment as soon as possible. The first activity for most parents will be a job search. Other employment, education, or training may be possible. Work activities include: employment, unpaid work experience or community service, job training and job search/job readiness. Failure to meet or comply with work requirements, as defined in each individual's employment plan, could result in financial penalty, reduction of cash benefits, or termination of program eligibility.

Criteria: The State agency must maintain adequate documentation, verification, and internal control procedures to ensure the accuracy of the data used in calculating work participation rates. In so doing, it must have in place procedures to (a) determine whether its work activities may count for participation rate purposes; (b) determine how to count and verify reported hours of work; (c) identify who is a work-eligible individual; and (d) control internal data transmission and accuracy.

Each State agency must comply with its HHS-approved Work Verification Plan in effect for the period that is audited. HHS may penalize the State by an amount not less than one percent and not more than five percent of the State Family Assistance Grant for violation of this provision (42 USC 601, 602, 607, and 609); 45 CFR sections 261.60, 261.61, 261.62, 261.63, 261.64, and 261.65).

Non-compliance with work activities can result in case sanction and closure after 3 months of non-compliance.

Condition: From our random sample of 52 eligibility determinations:

- 20 of the 52 clients were work-eligible and required to have a work participation plan in place for the applicable test period.
- For those 20 cases, 12 clients had work participation plans in place.
- Two of the 12 clients were in compliance with their work participation plan.
- Of these 10 cases found to be noncompliant with the work participation plan, four cases should have been sanctioned in that month or the next month but were not.

- Eight work eligible clients did not have work participation plans in place during the month selected. We found that the previous plan had lapsed, and a new plan had not been established. Five of these clients were not sanctioned. One case was already sanctioned for non-cooperation with the child support agency; therefore, not sanctioned for noncompliance with the work participation plan. Two clients were sanctioned for non-cooperation with the work plan; one for more than three months before the case was closed.

Cause: The RIBridges system did not prompt the DHS employment and career advisors to contact the client to develop a new work participation plan. The Department's policy of supervisory review of a sample of cases was not adhered to due to the totality of other RIBridges implementation issues.

Effect: Potential federal sanctions/penalties for failure to meet the required work participation rate, and questioned costs due to required, but unprocessed, reductions in cash benefits or case closures related to client noncompliance with the work verification plan.

Questioned Costs: $1,032

Valid Statistical Sampling: Yes

RECOMMENDATION

2018-058 Improve RIBridges functionality to prompt employment and career advisors when clients must either establish or update an expiring work participation plan. Sanction clients not in compliance with their workplans, and close cases after three months of non-compliance.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-059	***(material noncompliance/material weakness – repeat finding – 2017-067)***

TANF CLUSTER - CFDA 93.558
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Year 2016-2017 and 2017-2018
Federal Award Number: G1702RITANF and G1802RITANF
Administered by: Department of Human Services (DHS)
Compliance Requirement: Special Tests and Provisions - IEVS

INCOME ELIGIBILITY AND VERIFICATION SYSTEM (IEVS)

The State did not comply with the Income Eligibility and Verification System requirements upon implementation of the new RIBridges integrated eligibility system in fiscal 2018.

Background: States are required to participate in the Income Eligibility and Verification System (IEVS) which requires coordinated data exchanges with other federally assisted benefit programs and use of income and benefit information when making eligibility determinations.

Criteria: Section 1137 of the Social Security Act as amended and 42 USC 1320b-7; 45 CFR section 205.55. State Wage Information Collection Agency (SWICA), Unemployment Compensation, Social Security Administration, U.S. Citizenship and Immigration Services information is required to be obtained and used to determine eligibility and the amount of TANF benefits.

Condition: The required IEVS data interface functionalities were not operating from the time of RIBridges implementation in September 2016 and through the end of fiscal 2018 (June 30, 2018).

Cause: The RIBridges system implementation has been problematic and resulted in diminished functionality through fiscal 2018. The SWICA interface was available; however, implementation as an IEVS functionality for TANF was delayed.

Effect: DHS did not comply with the TANF IEVS requirement and, as a result, controls over eligibility and TANF benefit amounts related to verification and validation of client attested income data were weakened.

Questioned Costs: Unknown

Valid Statistical Sampling: Not Applicable

RECOMMENDATION

2018-059 Implement and ensure the continued operation of federally required data interfaces within the RIBridges eligibility system to meet the IEVS TANF program requirement.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2018-060	***(significant deficiency – new finding)***

TANF CLUSTER - CFDA 93.558
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Year 2016-2017 and 2017-2018
Federal Award Number: G1702RITANF and G1802RITANF
Administered by: Department of Human Services (DHS)
Compliance Requirement: Activities Allowed or Unallowed

TRANSFERS OUT TO OTHER PROGRAMS

DHS can enhance its controls to ensure transfers of funds out of the TANF program to other programs are not in excess of allowable limits.

Criteria: A State may transfer up to 30 percent of the combined total of current fiscal year funds (not prior fiscal year funds carried into the current fiscal year) received under the State Family Assistance Grant (SFAG), and supplemental grant for population increases for a given fiscal year to carry out programs under the Social Services Block Grant (SSBG) (CFDA 93.667) and/or the Child Care and Development Block Grant (CCDF) (CFDA 93.575). However, no more than 10 percent may be transferred to SSBG, and such amounts may be used only for programs or services to children or their families whose income is less than 200 percent of the poverty level. (42 USC 604(d)).

Condition: During fiscal 2018, DHS transferred TANF funds to the Social Services Block Grant and Child Care Development Fund programs in excess of allowable limits - interim excess TANF to SSBG transfers totaled $420,000 and interim excess TANF to CCDF transfers totaled $1,900,500. Amounts were corrected, as part of the State's fiscal closing process, to adjust amounts in excess of allowable limits; however, controls were insufficient to ensure timely identification of the dollar limits of permitted transfers.

Cause: Staff were not effectively monitoring transfers during the year to ensure compliance with allowable transfer limitations.

Effect: Potential noncompliance with activities allowed or unallowed requirements and permitted transfers between federal programs.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATION

2018-060 Monitor compliance with transfers limits each time funds are transferred to the SSBG or CCDF programs.

Auditee views*: *The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2018-061	*(material weakness – repeat finding – 2017-061)*

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Federal Award Agency: Department of Health and Human Services, Administration for Children and Families
Award Years: 2016, 2017, and 2018
Federal Award Numbers: 2016G992201, 2016G995623, 2017G992201, 2017G992626, 2018G992201
Administered by: Department of Human Services (DHS)
Compliance Requirement: Cash Management

SUBRECIPIENT CASH MANAGEMENT

Payments made to subrecipients were not consistently supported by information reflecting subrecipient cash balances and the estimates of each agency's immediate cash needs.

Criteria: The pass-through entity must implement procedures to ensure that the time elapsing between the transfer of federal funds to the subrecipient and the disbursement of such funds for program purposes by the subrecipient was minimized (2 CFR section 200.305(b)(1)).

Condition: Subrecipients were not paid on a scheduled, regular basis reflecting the underlying program disbursements by the subrecipient agencies. The amounts paid did not always agree to the agency's request for funds. Cash balances reported by requesting agencies could not be verified and requests for program cash were not adequately supported by system reports detailing benefits awarded pending payment. Forms and supporting documentation submitted by subrecipients to DHS were inconsistent amongst the subrecipients. DHS informed us that they are working actively to address these issues during SFY 2019.

Cause: The control deficiency is, in part, attributable to significant staff turnover in recent years. Additionally, the Department has not formalized a process to provide for frequent and schedule, regular payments to program subrecipients which reflect their immediate cash needs.

Effect: DHS had insufficient controls in place to ensure subrecipient cash balances were limited to their immediate needs. Agencies may have had excess cash on hand.

Questioned Costs: Unknown

Valid Statistical Sampling: No

RECOMMENDATION

2018-061 Implement a frequent and regular payment schedule for all subrecipients which reflects reliable and documented estimates of immediate cash needs. Require subrecipients to all consistently use the same DHS documentation to support requests for program funds.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2018-062 ***(material weakness – repeat finding – 2017-062 and 2017-063)***

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Federal Award Agency: Department of Health and Human Services, Administration for Children and Families
Award Years: 2017
Federal Award Numbers: 2017G992201, 2017G992626
Administered by: Department of Human Services (DHS)
Compliance Requirement: Financial Reporting

LIHEAP FINANCIAL REPORTING

DHS must improve controls to ensure compliance with the LIHEAP federal reporting requirements including support for the number of families receiving LIHEAP benefits as included on the federal Annual Report on Households Assisted by LIHEAP.

Criteria: Federal Financial Report (SF-425) – In accordance with 45 CFR 96.30(b) the State is required to prepare a Federal Financial Report (SF-425) for the LIHEAP block grant on an annual basis. In addition, the State is required to submit the Carryover and Reallotment Report - Grantees must submit this report, no later than August 1, indicating the obligated amount expected to be carried forward to the following fiscal year and the planned use of those funds. Funds more than the maximum carryover limit are subject to reallotment to other LIHEAP grantees in the following fiscal year and must also be reported (42 USC 8626).

Annual Report on Households Assisted by LIHEAP (OMB No. 0970-0060) - as part of the application for block grant funds each year, a report is required for the preceding fiscal year of (1) the number and income levels of the households assisted for each component and any type of LIHEAP assistance (heating, cooling, crisis, and weatherization); and (2) the number of households served that contained young children, elderly, or persons with disabilities, or any vulnerable household for each component.

Condition: DHS reported the unobligated balance of federal funds incorrectly on both SF-425 report and the Carryover and Reallotment Report relating to LIHEAP grant year 2017. Data used in these reports caused lines 10.f through 10.h on the SF-425 to be materially incorrect. This difference arose due to a lack of documentation identifying how DHS determined the amount reported on the Carryover and Reallotment Report, which is the source of the unobligated balance reported on the SF-425. Based on recalculations done during our audit by DHS, it appears that the unobligated balance was overstated by $753,992 on both federal reports and caused corresponding misstatements of the SF 425 Lines 10. F through 10h.

Controls need to be enhanced to ensure the reliability of amounts included in both reports report and the reports should be corrected and resubmitted to the federal government.

DHS was unable to provide all documentation necessary to support the Annual Report on Households Assisted by LIHEAP filed as of September 30, 2017. Information on the report either did not agree to documentation or was inadequately supported. The report was submitted by the Program Administrator without other management review.

Cause: The control deficiency is, in part, attributable to significant staff turnover in recent years and inadequate controls to ensure that adequate supporting documentation is maintained for all amounts reported on Federal reports.

Effect: The unobligated balance appears overstated by $753,992 on the Carryover and Reallotment Report and caused corresponding misstatements of the SF 425 Lines 10. F through 10h for grant year 2017. This misstatement also affects determination of compliance with the period of availability requirement.
The Annual Report on Households Assisted by LIHEAP report, detailing the number of families served through the LIHEAP program, may be inaccurate.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATION

2018-062a Implement controls to ensure that the unobligated balance is properly calculated, adequately supported, and reported on the Carryover and Reallotment Report and related amounts of the SF-425.

2018-062b Ensure that information reported on the Annual Report on Households Assisted by LIHEAP is adequately supported by accurate information from the systems used to administer the program. Implement management review prior to submission of reports, including support for all amounts reported.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2018-063	***(significant deficiency – new finding)***

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Federal Award Agency: Department of Health and Human Services, Administration for Children and Families
Award Years: 2017
Federal Award Numbers: 2017G992201, 2017G992626
Administered by: Department of Human Services (DHS)
Compliance Requirement: Subrecipient Monitoring

SUBRECIPIENT MONITORING

DHS subrecipient monitoring procedures need to be enhanced to ensure that funds are being used by subrecipients in compliance with LIHEAP Program laws and regulations.

Criteria: All pass-through entities must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved (2 CFR 200.331 (d) through (f)). In addition, 45 CFR 96.30(a) states that fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.

"A pass-through entity is responsible for: *During-the-Award Monitoring* – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved." (OMB Compliance Supplement).

Condition: DHS did not perform any on-site fiscal monitoring of any its six subrecipients during SFY 2018 covering FFY 2017 activity. Instead, DHS relied solely on a desk review of the Single Audit Reports for each subrecipient and if no findings were reported, DHS deemed the subrecipient to be low risk and did not perform any on site fiscal monitoring.

DHS did not consider any of its subrecipients to be high risk, as no findings were identified in the audit reports covering 2017. However, in making this determination DHS did not consider whether LIHEAP was being audited as major program by the subrecipient's auditors or not. If a subrecipient's audit does not audit the LIHEAP program as a major program, then the audit report provides no specific assurance regarding the subrecipient's LIHEAP program internal controls or compliance with applicable laws, regulations, etc. We found that for only three of the six subrecipients (53% of subaward amounts), LIHEAP was audited as a major program for fiscal 2017.

Cause: The State plan for FFY 2018 was modified to only require on-site monitoring if a subrecipient was deemed high risk based on a review of the subrecipient audit reports. Comprehensive subrecipient monitoring procedures were not operational during fiscal 2018.

Effect: DHS does not have adequate subrecipient monitoring procedures in place to ensure that subrecipients are spending LIHEAP funds in accordance with federal laws and regulations.

Questioned Costs: None

Valid Statistical Sampling: Not Applicable

RECOMMENDATION

2018-063 Enhance and implement comprehensive subrecipient monitoring procedures for LIHEAP subawards.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2018-064 ***(material noncompliance/material weakness – repeat finding – 2017-068)***

CCDF CLUSTER - CFDA 93.575 and 93.596
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Year 2016-2017 and 2017-2018
Federal Award Numbers: G1701RICCDF and G1801RICCDF
Administered by: Department of Human Services (DHS)
Compliance Requirement: Eligibility

CONTROLS OVER ELIGIBILITY, INCOME VALIDATION, DETERMINATION OF PARENT COST-SHARING AMOUNTS, AND CHILDCARE PROVIDER PAYMENTS

Due to the limited operating effectiveness of the RIBridges benefits system during fiscal 2018, controls over eligibility determinations, calculation of required parent cost-sharing amounts and payments to childcare providers were weakened within the CCDF Cluster programs.

Background: RIBridges is the State's federally-approved computer system used to manage multiple health care and human service programs. It was designed to allow for integrated eligibility across programs, enhanced client accessibility, and provide for periodic validation of client attested data through multiple electronic interfaces. RIBridges system operation has been problematic since implementation and efforts to address eligibility processing challenges are ongoing. Enhanced federal funding for new eligibility systems was approved to provide more efficient, economical, and effective administration of the State plan. Eligibility for CCDF was determined through RIBridges beginning in September 2016. RIBridges determines eligibility for a child care subsidy and the amount of parental co-pay based on family income. Payments to licensed child care providers are made through RIBridges.

Criteria: Lead agencies must have in place procedures for documenting and verifying eligibility in accordance with Federal requirements, as well as the specific eligibility requirements selected by each State in its approved Plan. A lead agency is the designated State, territorial or tribal entity to which the CCDF grant is awarded and that is accountable for administering the CCDF program.

Lead agencies shall establish a sliding fee scale, based on family size, income, and other appropriate factors, that provides for cost sharing by families that receive CCDF child care services (45 CFR section 98.42). Lead agencies may exempt families below the poverty line from making copayments and shall establish a payment rate schedule for child care providers caring for subsidized children (45 CFR section 98.43).

Condition: RIBridges lacked effective income validation controls to reliably and accurately determine program eligibility, calculate parent co-shares, if required, and determine payments to child care providers. Required redeterminations of eligibility were not consistently performed during fiscal 2018.

Eligibility testing (selected from an eligibility determination file July 1, 2017 through May 31, 2018):

Population (Eligible Cases)	Sample Size	Number of Exceptions	Error Rate	Known Questioned Costs
26,092	38	2 – involving incorrect eligibility determination	5%	$8,559
		1 – documentation deficiency	3%	
		3 – parent co-share not withheld from provider payment	8%	

Exceptions represent instances where eligibility was (1) inconsistent with information in the case within RIBridges, or (2) inadequately supported by documentation available within RIBridges, or (3) eligibility was appropriately established but a parent co-share was not deducted from the provider payment.

(1) Instances involving incorrect eligibility determination:
- One case where the parent's paystubs were scanned into RIBridges but do not appear to have been used in the eligibility determination or calculation of the co-share. If the updated income amounts had been used, the case would have determined ineligible.
- One case where the recertification was due on March 31, 2018. There was no response from the client which should have caused the case to close.

(2) Documentation deficiencies noted:
- One case which had self-employment income, but there was insufficient documentation to support the related expenses.

(3) Co-share discrepancies:
- Three cases where a parent co-share amount was not withheld from the provider payment.

Payments testing (selected from a RIBridges payment file for fiscal year 2018):

Population (Provider Payments)	Sample Size (non-statistical)	Number of Exceptions	Error Rate	Known Questioned Costs
25,998	25	2 - involving incorrect eligibility determination	8%	$4,554

Instances involving incorrect eligibility determination - two cases where the child was ineligible per RIBridges, but payments were made to the provider.

Cause: All RIBridges designed eligibility components were not fully functional in fiscal 2018 which compromised the effectiveness of the controls over the CCDF eligibility determination process. Certain RIBridges system functionalities were insufficiently designed and not fully operational.

RIBridges did not calculate cost-sharing amounts consistently and correctly for parents and providers.

Effect: Providers were both overpaid and underpaid in certain instances. Parent co-shares were incorrectly determined for some cases which also affected provider payments. Supplemental payments were required to correct the payment errors. Controls over the administration of the program were weakened.

Questioned Costs: Known questioned costs in our sample totaled $13,113 based on a bi-weekly payment cycle.

Valid Statistical Sampling: Yes for eligibility sample; no for payments sample.

RECOMMENDATIONS

2018-064a Ensure RIBridges consistently and correctly calculates cost-sharing amounts for parents and providers.

2018-064b Complete a plan to ensure all designed system controls over CCDF eligibility, parent co-shares, and provider payments are fully operational.

***Auditee views:* The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-065 ***(material noncompliance/material weakness – repeat finding – 2017-070)***

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2016-2017 and 2017-2018
Federal Award Numbers: 1705RI0301 and 1805RI5021
Administered by: Executive Office of Health and Human Services (EOHHS)
Compliance Requirement: Eligibility

CONTROLS OVER ELIGIBILITY DETERMINATIONS WITHIN THE CHILDREN'S HEALTH INSURANCE PROGRAM (CHIP) – MATERIAL NONCOMPLIANCE

The State did not materially comply with CHIP eligibility requirements due to the ineffective design and operation of controls over program eligibility during fiscal 2018.

Background: RIBridges is the State's federally-approved computer system used to manage multiple health care and human service programs. It was designed to allow for integrated eligibility across programs, enhanced client accessibility, and provide for periodic validation of client attested data through multiple electronic interfaces. Eligibility for CHIP was determined through RIBridges in fiscal 2018. RIBridges system operation has been problematic since implementation and efforts to address eligibility processing challenges are ongoing. Enhanced federal funding for new eligibility systems was approved to provide more efficient, economical, and effective administration of the State plan.

Criteria: Eligibility requirements for CHIP are detailed in the State Plan. Recipient eligibility requirements generally include children under age 19 with household income less than 261% of the federal poverty limit (FPL). Coverage of pregnant women and unborn children of noncitizens is also available under CHIP for individuals with household income less than 253% of FPL. Enhanced funding under CHIP is available only for children without existing health coverage. Children with existing health coverage would be eligible for Medical Assistance.

42 CFR 435.916 requires the periodic renewal of recipient CHIP eligibility. The 12-month period mandated for MAGI-eligible recipients pertains to the majority of Medicaid and CHIP recipients in Rhode Island.

42 CFR 435.940 which covers income and eligibility verification requirements for CHIP and Medicaid, requires State-administered public assistance programs to establish procedures for obtaining, using and verifying information relevant to determinations as to eligibility and the amount of assistance. Section 1902(a)(4) of the Act allows the Secretary to prescribe methods of administration found necessary for the proper and efficient operation of a State's Medicaid plan. This requirement mandates the maintenance of information, as enumerated in 42 CFR 435.960, to exchange for the purpose of enabling any agency or program referenced in § 435.945(b) to verify income, eligibility of, and the amount of assistance for its applicants and recipients.

Condition: Operational and control deficiencies within RIBridges resulted in material noncompliance with eligibility requirements for CHIP, specifically:

- RIBridges is not currently programmed to (1) terminate CHIP eligibility once the child turns 19, (2) consider the availability of existing health coverage at the time of application, (3) reassess eligibility for the mother postpartum. These are required eligibility criteria for CHIP per the State's Plan.
    - We found 2,591 individuals or 3.1% of the population were coded as CHIP eligible children but were older than age 19 at the month of capitation during fiscal 2018. The State claimed

$1.6 million in capitation to CHIP after these children turned 19 (known questioned costs - $1,449,594).

- RIBridges is not currently evaluating existing health coverage in conjunction with determining CHIP eligibility, a practice inconsistent with the CHIP State Plan. The State's most effective data source for identifying third-party insurance (automated TPL data match with private insurers) is utilized in the MMIS but is not interfacing with RIBridges at this time. Questioned costs for this attribute are included in the sampling summaries below.

- For pregnant women determined eligible for CHIP, RIBridges does not redetermine eligibility after the post-partum coverage period has ended. We could not determine questioned costs for individuals who were no longer CHIP eligible based on this criterion.

- Results of RIBridges eligibility determination testing for CHIP noted the following error rates indicative of noncompliance with CHIP recipient eligibility requirements:

***Sample 1 -** Eligibility determinations made by RIBridges between 7/1/2017 and 5/31/2018:*

Population (Case Determinations)	Sample Size	Number of Exceptions	Error Rate	Known Questioned Costs
27,089	47	14	29.79%	$26,304

Questioned costs represent the federal share of claims and capitation for fiscal 2018 period deemed ineligible for the case selected as the sampling unit.

***Sample 2 -** Fee-for-service paid claims reimbursed by CHIP during fiscal 2018:*

Population		Sample Size	Number of Exceptions	Error Rate	Known Questioned Costs
Number of claims (records)	Expenditures (Federal Share)				
136,966	$13.4 million	22	2	9.09%	$36

Questioned costs represent the federal share of claim selected as the sampling unit determined ineligible.

***Sample 3 -** Monthly managed care capitation payments reimbursed by CHIP during fiscal 2018:*

Population		Sample Size	Number of Exceptions	Error Rate	Known Questioned Costs
Number of capitation payments (records)	Expenditures (Federal Share)				
1,208,456	$66.6 million	22	3	13.64%	$161

Questioned costs represent the federal share of the monthly capitation payment selected as the sampling unit determined ineligible.

Exceptions represent instances where eligibility was not adequately supported by documentation maintained in the RIBridges or MMIS systems. Noted documentation deficiencies include:

- case documentation did not support the determination made by RIBridges and where eligibility should have been terminated based on case documentation but continued for the period tested.

- individuals were found to have existing health coverage which would have made them ineligible for CHIP. These individuals should have been determined Medicaid eligible instead.

- Redeterminations of eligibility are required annually -- eligibility redeterminations, while improved, still lagged during fiscal 2018, with 43% of CHIP cases in Samples 2 and 3 above not being redetermined in a timely manner (12 months). Redeterminations were not documented within the previous 24 months in 11% of sampled CHIP cases (attribute evaluated for 44 CHIP cases).

- RIBridges was designed to include a Periodic Eligibility Verification (PEV) process where data from certain interfaces is compared periodically to case information – differences prompt requests for additional client information and require eligibility technician resolution. While the operation and effectiveness of the PEV process improved in fiscal 2018, it was not performed routinely and consistently for all cases which weakened the overall effectiveness of the intended control procedures. More currently (fiscal 2019), the PEV process is fully operational and implementation of a RIB ridges "worker inbox" functionality is intended to improve timely eligibility technician response to PEV processing data.

We have reported known questioned costs identified in conjunction with our recipient eligibility test samples for CHIP in the preceding paragraphs. Our projection of these known questioned costs to the underlying claim and capitation populations resulted in projected likely questioned costs indicative of material noncompliance with eligibility requirements for the Children's Health Insurance Program.

Cause: Noncompliance with CHIP eligibility requirements is caused by CHIP specific programming deficiencies relating to RIBridges. These include lack of RIBridges functionality to (1) terminate CHIP eligibility once the child turns 19, (2) consider the availability of existing health coverage at the time of application, (3) reassess eligibility for the mother postpartum.

Eligibility determinations were insufficiently documented by RIBridges during fiscal 2018. There were continued inconsistencies of reported eligibility data between RIBridges and the MMIS systems. All RIBridges designed eligibility components were not fully functional in fiscal 2018 which compromised the effectiveness of the controls over the CHIP eligibility determination process. Certain RIBridges system functionalities were not fully operational (e.g., PEV). Required eligibility redeterminations were not conducted consistently for all applicable beneficiaries in accordance with program regulations. These issues negatively impacted the State's ability to materially comply with CHIP program eligibility requirements.

Effect: Material noncompliance with federal requirements relating to recipient eligibility and ineffective controls over the determination of CHIP eligibility.

Questioned Costs: $1,476,095

Valid Statistical Sampling: Yes

RECOMMENDATIONS

2018-065a Require the RIBridges system developer to address the system deficiencies which result in material noncompliance with federal regulations regarding eligibility.

2018-065b Consider other procedures in the near term (e.g., data analysis) to ensure that only eligible CHIP claiming is charged to the program.

2018-065c Ensure all designed system controls (e.g., PEV and redetermination) over eligibility are fully operational with results well documented in the system.

2018-065d Identify ineligible CHIP costs and return to the federal grantor.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-066	***(material noncompliance/material weakness – repeat finding – 2017-070)***

MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2016-2017 and 2017-2018
Federal Award Numbers: 1705RI5MAP and 1805RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)
Compliance Requirement: Eligibility

CONTROLS OVER MEDICAID ELIGIBILITY DETERMINATIONS – MATERIAL NONCOMPLIANCE

The State did not materially comply with Medicaid program eligibility requirements due to the limited operation and effectiveness of eligibility controls during fiscal 2018.

Background: RIBridges is the State's federally-approved computer system used to manage multiple health care and human service programs. It was designed to allow for integrated eligibility across programs, enhanced client accessibility, and provide for periodic validation of client attested data through multiple electronic interfaces. Eligibility for Medicaid was determined through RIBridges in fiscal 2018. RIBridges system operation has been problematic since implementation and efforts to address eligibility processing are ongoing. Enhanced federal funding for new eligibility systems was approved to provide more efficient, economical, and effective administration of the State plan.

Criteria: Medicaid eligibility requirements are detailed in the State Plan (Section 1115 Global Waiver).

42 CFR 435.940 which covers income and eligibility verification requirements for Medicaid, requires State-administered public assistance programs to establish procedures for obtaining, using and verifying information relevant to determinations as to eligibility and the amount of assistance. Section 1902(a)(4) of the Act allows the Secretary to prescribe methods of administration found necessary for the proper and efficient operation of a State's Medicaid plan. This requirement mandates the maintenance of information, as enumerated in 42 CFR 435.960, to exchange for the purpose of enabling any agency or program referenced in § 435.945(b) to verify income, eligibility of, and the amount of assistance for its applicants and recipients.

42 CFR 435.916 requires the periodic renewal of recipient Medicaid eligibility. The 12-month period mandated for MAGI-eligible recipients pertains to the majority of Medicaid and CHIP recipients in Rhode Island.

Condition: Operational and control deficiencies resulting from the RIBridges system implementation resulted in material noncompliance with eligibility requirements for the Medicaid program, specifically:

- Results of RIBridges eligibility determination testing for Medicaid noted the following error rates indicative of noncompliance with Medicaid recipient eligibility requirements:

Sample 1 - *Eligibility determinations made by RIBridges between 7/1/2017 and 5/31/2018:*

Population (Case Eligibility Determinations)	Sample Size	Number of Exceptions	Error Rate	Known Questioned Costs
384,359	47	15	31.91%	$17,371

Questioned costs represent the federal share of claims and capitation for fiscal 2018 period deemed ineligible for the case selected as the sampling unit.

Sample 2 - *Fee-for-service paid claims reimbursed by Medicaid during fiscal 2018:*

Population		Sample Size	Number of Exceptions	Error Rate	Known Questioned Costs
Number of claims (records)	Expenditures (Federal Share)				
1,977,483	$640.6 million	104	8	7.69%	$119,978

Questioned costs represent the federal share of claims and capitation for fiscal 2018 period deemed ineligible for the case selected as the sampling unit.

Exceptions represent instances where eligibility was not adequately supported by documentation reviewed by the auditors through RIBridges and MMIS system access. Documentation deficiencies most commonly noted related to instances where:

- Case documentation did not support the eligibility determination made by RIBridges.
- Individuals had multiple cases in RIBridges with overlapping effective dates preventing eligibility from being properly documented.
- Eligibility should have been terminated based on case documentation but continued for the period tested.

- RIBridges system and operating deficiencies impacted the timely termination of Medicaid eligibility upon death which resulted in capitation payments being made for ineligible individuals. The Office of Internal Audit performed an analysis through December 31, 2017 comparing RIBridges data and an independent death file source. For fiscal 2018, that comparison identified 10,881 Medicaid eligible individuals known to RIBridges that are now deceased.

We used that analysis as a starting point to identify managed care capitation payments after the date of death. Our fiscal 2018 analysis (based on deaths reported by the State through December 2017) identified $11.6 million for 1,063 deceased individuals, of which $6.6 million had been recouped from the MCOs by EOHHS (unrecouped questioned costs at June 30, 2018 approximated $5,020,905 (federal share - $2,583,256)).

We tested a sample of 60 individuals identified by the State with eligibility continuing after the date of death. 6 of the 60 individuals were not known to the MMIS; 10 individuals were known to the MMIS but did not have any capitation payments made after the date of death. Of the remaining 44 individuals in our sample, 24 had payment activity recouped within 2 months upon recognition of the date of death in the MMIS, 8 had payment activity recouped between 2-6 months, and 12 had payment activity where recoupment lagged more than 6 months.

This control weakness became more significant upon implementation of RIBridges (Phase 2 UHIP) in September 2016 when aged and disabled populations began applying through the new system. EOHHS has worked to address this system deficiency and recoup capitation made for ineligible periods. Our sampling of EOHHS recoupment data concluded that approximately 75% of ineligible payments had been recouped from MCOs as of March 2019. Current system processing ends eligibility for deceased individuals when confirmed by two sources by prompting resolution by DHS eligibility case workers.

- Redeterminations of eligibility are required annually. Redeterminations, while improved, still lagged during fiscal 2018, with 53% of sampled cases not being redetermined in a timely manner (12 months), for Medicaid. Redetermination was not documented within the previous 24 months in 23% of sampled Medicaid cases. In certain cases, RIBridges documentation of redetermination was insufficient to determine compliance. (Questioned Costs – undetermined). This attribute was evaluated for 104 Medicaid cases.

- We performed targeted testing (not randomly selected) of 60 cases with significant reported SWICA income to evaluate the RIBridges operation of PEV (income detection in the MAGI calculation). We identified instances where:

    - RIBridges did not utilize attested or detected income properly in the case eligibility calculation (13 of the 60 cases),
    - SWICA interfaces and related PEV functionality did not identify income effectively (accurately and timely) based on design of system control (19 of the 60 cases), and
    - RIBridges MAGI calculation was impacted by significant deductions to income reported by applicants. There are currently no controls (or defined limitations) over deductions to income within the system. In 4 of 60 cases reviewed, reported income deductions to income did not appear reasonable based on the case circumstances.

  Questioned costs identified specific to these cases totaled $69,501.

Known questioned costs are identified for Medicaid eligibility test samples in the preceding paragraphs. Projection of these known questioned costs to the underlying claim and capitation populations results in likely questioned costs indicative of material noncompliance with Medicaid eligibility requirements.

Cause: Eligibility determinations were insufficiently documented by RIBridges during fiscal 2018. There were continued inconsistencies of reported eligibility data between RIBridges and the MMIS systems. All RIBridges designed eligibility components were not fully functional in fiscal 2018 which compromised the effectiveness of the controls over the Medicaid eligibility determination process. Certain RIBridges system functionalities were not fully operational (e.g., PEV, Death File Interface, continued delays in eligibility determinations for long-term care services and supports). Required eligibility redeterminations were not conducted consistently for all applicable beneficiaries in accordance with program regulations. These issues negatively impacted the State's ability to materially comply with Medicaid program eligibility requirements.

Effect: Material noncompliance with federal requirements relating to recipient eligibility and ineffective controls over the determination of eligibility for Medicaid.

Questioned Costs: $2,790,106

Valid Statistical Sampling: Yes

RECOMMENDATIONS

2018-066a Require the RIBridges system developer to address the system deficiencies which result in material noncompliance with federal regulations regarding eligibility.

2018-066b Formalize and implement a plan to ensure all designed system controls (PEV and redetermination) over eligibility are fully operational and well documented in the system.

2018-066c Identify ineligible Medicaid program costs (including remaining recoupments for capitation paid after recipient death) and return to the federal grantor.

2018-066d Improve RIBridges' documentation of critical eligibility components to ensure that it can adequately document federal compliance with recipient eligibility requirements (including better case history supporting eligibility determinations made over time).

2018-066e Develop and implement a policy regarding allowable limits on deductions to reported income for MAGI based eligibility determinations.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-067 ***(material weakness – repeat finding – 2017-071)***

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2016-2017 and 2017-2018
Federal Award Numbers: 1705RI0301 and 1805RI5021
MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2016-2017 and 2017-2018
Federal Award Numbers: 1705RI5MAP and 1805RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)
Compliance Requirement: Eligibility

MEDICAID ELIGIBILITY QUALITY CONTROL (MEQC) PROGRAM

The effectiveness of the MEQC program is diminished by continued RIBridges functional limitations. The MEQC Unit is challenged to obtain all the information needed to verify eligibility determinations made by RIBridges. A significant volume of systemic issues identified by MEQC processes are pending corrective action in RIBridges.

Background: The MEQC program is a federally required process intended as a key control to ensure compliance with the Medicaid State Plan and federal regulations requirements for Medicaid eligibility.

Criteria: 42 CFR 431.800 establishes State Plan requirements for a Medicaid Eligibility Quality Control (MEQC) program that must be designed to reduce erroneous expenditures by monitoring eligibility determinations and claims processing operations. 42 CFR 431.810 requires the State to conduct reviews for MEQC pilots in accordance with federal regulations and other instructions established by the Centers for Medicare and Medicaid Services (CMS). States have been required to develop MEQC pilot planning proposals, report their findings, and implement corrective action plans in accordance with federal regulations and CMS requirements.

MEQC works in conjunction with the federal Payment Error Rate Measurement (PERM) Program. In 2014, federal regulations required that State MEQC units perform a series of pilot projects in lieu of their normal performance monitoring samples to measure compliance with changes made by the Patient Protection and Affordable Care Act of 2010 (Pub. L. No. 111-148), as amended by the Health Care and Education Reconciliation Act of 2010 (Pub. L. No. 111-152) (collectively referred to as the Affordable Care Act {ACA}). The federal government intends to integrate pilot study findings into future PERM program requirements. The federal regulations pertaining to MEQC and the PERM program were substantially revised in July 2017 and include ongoing monitoring, pilot study, and PERM program requirements for State fiscal 2018 and later years.

The regulations require that federal financial participation (FFP) be disallowed for erroneous Medicaid payments due to ineligibility and recipient liability errors as detected through the MEQC program. The State Medicaid agency must collect and verify all information necessary to determine the eligibility status of each individual included in the test samples. 42 CFR 431.812 requires that the agency perform both active and negative case reviews in accordance with terms defined in the regulations. Active cases include individuals that participate in the Medicaid program. Negative cases include individuals that were denied, suspended, or terminated from the Medicaid program. EOHHS, the State Medicaid agency, has delegated the operation of the MEQC program to the Department of Human Services (DHS).

Condition: The MEQC unit completed the fifth and final MEQC pilot project in March 2018. Pilots 2, 3, and 4 were submitted without corrective action plans. CMS has agreed to accept the corrective action plan filed with Pilot 5 for all previous pilots. The majority of identified corrective actions updated through the fifth MEQC pilot (approximately 100 items listed as necessary code fixes, system edits, or additional functionality) remain outstanding.

The MEQC unit is challenged in obtaining the information necessary to validate eligibility determinations made by RIBridges because of ongoing major system functional deficiencies. The inability to access information from the system in a timely and efficient manner delays completion of CMS mandated reporting within the required time frames.

Cause: Many long-term and ongoing RIBridges functional deficiencies prohibit the MEQC unit from accessing the information needed to verify the eligibility determinations made by the system in a timely manner. The system does not provide an audit trail and poses significant obstacles to evaluating eligibility retrospectively. The MEQC unit must employ multiple work-arounds to meet its federal monitoring and reporting responsibilities.

Effect: RIBridges' functional limitations prohibit timely and effective monitoring and reporting by the MEQC unit within the required time frames. In addition, delays in implementing outstanding corrective actions negatively impact compliance with federal eligibility requirements for Medicaid and CHIP programs.

Questioned Costs: Unknown

Valid Statistical Sampling: Not Applicable

<u>RECOMMENDATIONS</u>

2018-067a Enhance RIBridges functionalities and documentation to facilitate timely and effective MEQC testing (and similar eligibility testing performed in conjunction with the Single Audit and PERM requirements).

2018-067b Ensure timely correction of RIBridges system deficiencies highlighted through the MEQC process to ensure compliance with federal eligibility requirements for Medicaid and CHIP.

<u>Auditee views</u>*: *The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2018-068 ***(material weakness – repeat finding – 2017-073)***

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2016-2017 and 2017-2018
Federal Award Numbers: 1705RI0301 and 1805RI5021
MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2016-2017 and 2017-2018
Federal Award Numbers: 1705RI5MAP and 1805RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)
Compliance Requirement: Eligibility

NONCOMPLIANCE WITH TIMELY ELIGIBILITY DETERMINATION AND REDETERMINATION REQUIREMENTS

The State is not complying with timely determination of Medicaid eligibility requirements particularly for applicants requiring long-term care services and supports. Processing Medicaid applications for long-term care services in RIBridges continues to be problematic resulting in significant delays in determining eligibility and necessitating advances to long-term care service providers.

While the State resumed eligibility redeterminations during fiscal 2018, many cases did not meet the mandated annual redetermination requirement.

Criteria: 42 CFR 435.911 established maximum time standards for determining eligibility for Medicaid at 90 days for applicants applying for coverage based on disability and 45 days for all other applicants.

42 CFR 435.916 requires the periodic renewal of recipient Medicaid eligibility. The 12-month period mandated for MAGI-eligible recipients pertains to the majority of Medicaid and CHIP recipients in Rhode Island.

Condition: *Timely Processing of Medicaid Applications* **–** While substantially improved in fiscal 2018, EOHHS continues to experience challenges in processing Medicaid applications within federally required time frames. At June 30, 2018, there were 1,257 applications for medical coverage older than 90 days pending action by the State. 138 of the 1,257 applications related to MAGI Medicaid cases with 831 applications relating to non-MAGI Medicaid with long-term services and supports applicants being the majority. Another 288 applications were indicated as being undetermined medical which includes applicants potentially eligible for Medicaid, CHIP, or qualified health insurance plans on the State's Health Insurance Exchange.

Medicaid Eligibility Redeterminations - Redeterminations of eligibility are required annually -- eligibility redeterminations, while improved, still lagged during fiscal 2018, with 53% and 43% of sampled cases not being redetermined in a timely manner (12 months), for Medicaid and CHIP, respectively. Redetermination was not documented within the previous 24 months in 23% and 11% of sampled Medicaid and CHIP cases, respectively. In certain cases, RIBridges documentation of redetermination was insufficient to determine compliance (Questioned Costs – undetermined). This attribute was evaluated for 104 cases and 44 cases for Medicaid and CHIP, respectively.

Cause: *Timely Processing of Medicaid Applications* – Implementation of RIBridges created significant application processing backlogs. Significant personnel resources have been applied to address these backlogs and system functionality and user training has gradually improved. However, application backlogs remain due to various system deficiencies remaining to be addressed.

Medicaid Eligibility Redeterminations – In prior fiscal years, the State suspended recipient Medicaid annual redeterminations due to the significant issues being experienced by the new RIBridges system. The State commenced passive renewals in fiscal 2018 on a staggered basis for Medicaid recipients. RIBridges system documentation needs to be enhanced to better support Medicaid eligibility redetermined through the passive renewal process.

Effect: Noncompliance with federal requirements relating to the timely determination and redetermination of Medicaid eligibility.

Questioned Costs: Unknown

Valid Statistical Sampling: Not Applicable

RECOMMENDATION

2018-068 Improve RIBridges system functionality and performance to ensure compliance with federal regulations governing the timely determination and annual redetermination of Medicaid eligibility.

Auditee views:* *The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2018-069	***(questioned costs only – repeat finding – 2017-074)***

MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2016-2017 and 2017-2018
Federal Award Numbers: 1705RI5MAP and 1805RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)
Compliance Requirement: Allowable Costs / Cost Principles

ADVANCES TO PROVIDERS OF LONG-TERM CARE SERVICES AND SUPPORTS

EOHHS made advance payments totaling $154,322 to home care providers in fiscal 2018 due to delays in processing eligibility for individuals in need of long-term care services and supports. These advances were federally reimbursed (at the applicable federal financial participation rate) but did not meet criteria for reimbursement.

Criteria: Section 200.403 of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards cites the lack of documentation as a factor affecting the allowability of costs. In Medicaid, payments to providers are required to be documented by claims for services provided to eligible Medicaid recipients.

Condition: EOHHS disbursed advance payments totaling $154,322 (federal share - $79,399) to certain home care providers in fiscal 2018 as cash flow assistance to providers negatively impacted by the State's inability to effectively process Medicaid eligibility for long-term care applicants through RIBridges. The

State continued in fiscal 2018 to make substantial advances to LTSS providers due to application processing delays, however, only this small number of advances to home care providers were claimed to Medical Assistance, all others were made with State funds.

Cause: Inability to process Medicaid applications for recipients of long-term care services due to problems experienced by the RIBridges eligibility system.

Effect: Costs unallowable for Medicaid reimbursement due to eligibility not established.

Questioned Costs: $79,399

Valid Statistical Sampling: Not Applicable

RECOMMENDATION

2018-069 Recoup the advances to providers and credit the federal grantor for their portion of advances made.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2018-070 ***(material weakness – repeat finding – 2017-075)***

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2016-2017 and 2017-2018
Federal Award Numbers: 1705RI0301 and 1805RI5021
MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2016-2017 and 2017-2018
Federal Award Numbers: 1705RI5MAP and 1805RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)
Compliance Requirement: Eligibility

INCONSISTENCY OF ELIGIBILITY DATA BETWEEN RIBRIDGES AND MMIS

Data discrepancies exist between the systems used to determine Medicaid and CHIP eligibility (RIBridges) and the claims/capitation payment system (MMIS). According to EOHHS internal statistics as of June 30, 2018, the MMIS reported 10,080 recipients more than RIBridges. In addition, 1,263 individuals were eligible in RIBridges but not eligible in the MMIS. This impacts controls to ensure payments are only made on behalf of eligible individuals and has resulted in duplicate capitation payments being made to managed care organizations. Additionally, in instances where eligibility is not successfully communicated to the MMIS, provider claims and capitation will not be paid for eligible individuals.

Background: Eligibility for all Medicaid and CHIP cases is determined through RIBridges and communicated daily to the MMIS for payment of claims or capitation for eligible individuals. Eligibility data in both systems should be the same.

Criteria: Claims and capitation payments should only be made on behalf of individuals deemed Medicaid and CHIP eligible as evidenced by the RIBridges eligibility system.

Condition: Deficiencies associated with the new RIBridges system have resulted in eligibility data within the MMIS system being incorrect, outdated, and duplicated, significantly impacting the reliability of claims and capitation being paid only for individuals determined eligible for Medicaid Assistance in accordance with federal regulations. Eligibility record case discrepancies approximated 10,000 during the fiscal year based on tracking by EOHHS and their contractors. We identified 1,127 potential duplicate records (Medicaid ID numbers) in the MMIS (based on analysis of a file of approximately 310,000 unique Medicaid ID numbers with some period of eligibility during fiscal 2018). The amount of duplicate capitation paid during fiscal 2018 to managed care organizations was not quantified by EOHHS.

Progress in resolving data and case differences between the two systems continued during fiscal 2018. The State still faces a significant reconciliation effort to synchronize these systems to an acceptable level to ensure that claims and capitation are paid for only eligible individuals. As older differences get resolved, new discrepancies are identified.

Eligibility data variances between the two systems increased due to a variety of issues involving data conversion from the old INRHODES system to RIBridges, communication issues between RIBridges and the MMIS, and control deficiencies associated with the master client index that was designed to prevent duplicate records from being created for the same applicant.

Cause: Deficiencies associated with the new RIBridges system have resulted in eligibility data within the MMIS system being incorrect, outdated, and duplicated, significantly impacting the reliability of claims and capitation being paid only for individuals determined eligible for Medicaid in accordance with federal regulations.

Effect: Claims and capitation paid on behalf of individuals ineligible for Medicaid or duplicated in certain instances for eligible individuals where multiple cases have been established in the MMIS and/or RIBridges.

Questioned Costs: Unknown

Valid Statistical Sampling: Not Applicable

RECOMMENDATIONS

2018-070a Identify and resolve the underlying causes of eligibility data discrepancies between the MMIS and RIBridges systems.

2018-070b Determine the necessary corrective action and resources needed to eliminate the current backlog of system exceptions and future mismatches between the two systems.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-071 ***(material weakness – repeat finding – 2017-076)***

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2016-2017 and 2017-2018
Federal Award Numbers: 1705RI0301 and 1805RI5021
MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2016-2017 and 2017-2018
Federal Award Numbers: 1705RI5MAP and 1805RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)
Compliance Requirements: Activities Allowed/Unallowed and Allowable Costs / Cost Principles

CONTROLS OVER MANAGED CARE CAPITATION PAYMENTS AND CONTRACT SETTLEMENTS

EOHHS lacks strong oversight procedures regarding fiscal monitoring and contract settlement for its managed care organizations (MCOs). Capitation payments to MCOs represent approximately 60% of Medicaid benefit expenditures. EOHHS needs to develop a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled each contract period. More stringent audit and financial monitoring procedures should be employed.

Background: Medicaid expenditures for individuals enrolled in managed care during fiscal 2018 approximated $1.7 billion (mostly capitation payments to participating MCOs). This comprised managed care coverage for 283,033 Medicaid eligible individuals - approximately 91% of total Medicaid enrollees at June 30, 2018. These capitation payments related to the following managed care programs within the State's Medicaid program:

Program Name	Enrollment (June 2018)	Expenditures (in millions)
Rite Care (Core, CSHCN, Foster Care)	168,188	$609
Rhody Health Partners (certain adults with disabilities)	14,889	$225
Rhody Health Options (long-term care population)	26,527	$364
Medicaid Expansion (low-income adults with no children)	73,429	$457
Total	**283,033**	**$1,655**

Each of these programs has different population eligibility characteristics, capitation rate structures, and covered in-plan services. These programs, however, operate under similar contract structures for purposes of financial settlement with Medicaid.

Recognizing the significance of managed care services within the Medicaid program and the need to strengthen fiscal integrity and accountability controls over these services, the Center for Medicare & Medicaid services recently overhauled managed care regulations for the first time in more than a decade. The revised regulations are designed to strengthen fiscal transparency and integrity of managed care services provided in the Medicaid and CHIP programs.

Since managed care services provided within the RI Medicaid and CHIP programs involve complex rate setting and contract settlement provisions, the reliability and completeness of the mandated data provided by managed care organizations to the State is vital to fiscal integrity and accountability controls.

Criteria: 42 CFR 438.6, titled *Contract Requirements*, section (g) requires States to perform inspection and audit of financial records. Risk contracts must provide that the State agency and the Department may inspect and audit any financial records of the entity or its subcontractors.

42 CFR 438.602(e), titled *periodic audits*, the State must periodically, but no less frequently than once every 3 years, conduct, or contract for the conduct of, an independent audit of the accuracy, truthfulness, and completeness of the encounter and financial data submitted by, or on behalf of, each MCO.

42 CFR 438.604, titled *Data that must be certified*, section (a) requires that when State payments to an MCO or PIHP are based on data submitted by the MCO, the State must require certification of the data as provided in § 438.606. The data that must be certified include, but are not limited to, enrollment information, encounter data, and other information required by the State and contained in contracts, proposals, and related documents.

42 CFR 438.242, titled *Health information systems*, section (a) requires that States must ensure, through its contracts, that each MCO maintains a health information system that collects, analyzes, integrates, and reports data and can achieve the objectives of this subpart. The system must provide information on areas including, but not limited to, utilization, grievances and appeals, and disenrollments for other than loss of Medicaid eligibility. (b) Basic elements of a health information system. The State must require, at a minimum, that each MCO comply with the following: (1) Collect data on enrollee and provider characteristics as specified by the State, and on services furnished to enrollees through an encounter data system or other methods as may be specified by the State. (2) Ensure that data received from providers is accurate and complete by— (i) Verifying the accuracy and timeliness of reported data; (ii) Screening the data for completeness, logic, and consistency; and (iii) Collecting service information in standardized formats to the extent feasible and appropriate. (3) Make all collected data available to the State and upon request to CMS, as required in this subpart.

Condition: Due to the materiality of Medicaid and CHIP expenditures relating to managed care, we have identified the following three areas where the State can improve control and oversight over managed care expenditures:

1.) ***Enhance controls over determination of MCO program eligibility and assignment of proper capitation rates*** – the assignment of individuals to managed care coverage under the Rhody Health Partners and Rhody Health Options programs involves monthly queries (performed by contractors) to identify individuals eligible for the program as well as changes in the status of current enrollees. Although Rhody Health monthly capitation is paid through the MMIS, identification of eligible individuals and the determination of capitation payment levels are not coded into the MMIS as they are for Rite Care. Controls should be enhanced to ensure that program assignment and related monthly capitation amounts are properly performed by the State. Managed care program assignment determined through the State's eligibility system at the time that eligibility for Medicaid is determined would improve control over the manual processes currently employed. In addition, problems experienced by RIBridges have resulted in significant challenges within managed care to ensure that recipients of long-term care services and supports get properly coded and disbursed at the correct capitation levels.

2.) ***Improve oversight of MCO contract settlements*** **-** each managed care program contract defines the dates of service included in the contract period and a defined settlement period (usually one year after the contract end date) to allow for submission of all provider claims. The State relies extensively on its managed care consultant to evaluate and finalize amounts owed to or due from the State's participating managed care organizations for each separate program and contract period (usually a year or less).

Final MCO contract settlements involve a comparison of the medical component of the capitation payment received with the underlying medical expenses relating to the contract period. Controls do not currently exist to validate all aspects of the final settlement calculation. The medical component of the capitation payment received is difficult to validate due to timing differences between when the payment is reported by the State and MCOs. The State relies extensively on its consultant to manually reconcile and validate capitation reported by the MCOs with amounts reported by the MMIS. Medical expenses are equally difficult to validate because although the State receives detailed encounter data from the MCO for services rendered, this data is not always complete or does not always provide a complete accounting of medical expenses incurred by the MCO. The final settlement reconciliation also includes several "general ledger" adjustments which are included in each contract or covered group's (e.g., RIte Care, Rhody Health Options, etc.) medical expenses. These general ledger adjustments vary by contract/covered group and require evaluation.

The State needs to formally identify and address the programmatic and technical challenges that prevent complete and efficient settlement of managed care contracts. The current processes are manually intensive and lack sufficient validation of a significant amount of contract activity. Since the MCO contract settlement process is performed solely by a contractor, EOHHS staff need to provide more oversight. Formalizing these processes should specifically ensure compliance with new State monitoring requirements such as 42 CFR 438.602(e) requiring audits of encounter and financial data every 3 years.

3.) **Resolve outstanding capitation issues prior to final contract settlements –** due to various issues resulting from the implementation of RIBridges, capitation due to or from MCOs for certain individuals has remained outstanding. These instances mostly relate to issues in establishing eligibility for newborns, delays in processing applications for individuals in need of long-term care services and supports, stopping capitation for deceased individuals and incorrect capitation rates caused by inconsistent levels of care within the systems. These instances require an extensive amount of manual tracking and reconciliation (currently performed by contracted resources) to ensure that MCOs are reimbursed at the proper rates for periods of eligibility and most have remained unresolved for several years including managed care contract periods that have already been settled by EOHHS.

Cause: Inadequate controls over the fiscal monitoring and contract settlement for its managed care organizations (MCOs). The State does not receive complete and accurate encounter data to fully support contract settlement (based on established risk corridors) to ensure adequate control over managed care expenditures. RIBridges implementation issues have substantially complicated financial reconciliation efforts required between Medicaid and its managed care organizations. In addition, EOHHS relies too heavily on its managed care contractor for oversight of managed care expenditures without sufficient monitoring procedures to ensure sufficient control over this material class of expenditures.

Effect: Inaccurate reimbursements to MCO's for contract services provided to Medicaid enrollees.

Questioned Costs: Unknown

Valid Statistical Sampling: Not Applicable

RECOMMENDATIONS

2018-071a Develop a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled each contract period.

2018-071b Improve the adjudication of MCO encounter data to provide a more complete determination of the medical expenditures incurred during managed care contract periods. Disallow any costs from the contract settlement process that cannot be fully adjudicated.

2018-071c Require an independent audit of selected controls employed by the MCOs as well as the overall medical and administrative costs measured under the contracts.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-072	***(significant deficiency – repeat finding – 2017-078)***

MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2016-2017 and 2017-2018
Federal Award Numbers: 1705RI5MAP and 1805RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)
Compliance Requirement: Federal Reporting

FEDERAL REPORTING

Controls should be improved over the quarterly reporting of Medicaid administrative expenditures by reconciling reported administrative expenditures to the State's accounting system.

Criteria: Federal regulations require that expenditures for Medicaid be accurately reported on Form CMS-64. The State's RIFANS accounting system is the official record of federal program expenditures and therefore should be the basis for Medicaid federal reports. Form CMS-64, based on federal instructions, is to reflect program expenditures on a cash basis. The State's RIFANS accounting system presents expenditures on a modified accrual basis. Additionally, administrative expenditures from 4 separate and distinct cost allocation systems administered by EOHHS, DHS, DCYF, and BHDDH are allocated to the Medicaid program.

Currently, timing differences relating to cost allocation procedures and required adjustments to RIFANS cause differences between what is reported on federal reports and the State's accounting system. Such differences should be reconciled by EOHHS as a control over federal reporting.

Condition: Timing differences relating to cost allocation procedures and related adjustments to RIFANS, as well as differences in the basis of presentation (cash vs. accrual), cause differences between amounts on federal reports and the State's accounting system RIFANS. These differences should be sufficiently explained and reconciled to serve as a control over the preparation of the CMS-64 report. Amounts reported on the CMS-64 must be based on, and reconciled to, amounts reported in the State's accounting system for the Medicaid program.

For fiscal 2018, administrative expenditures claimed on federal reports were significantly greater than amounts reported in RIFANS but were not adequately reconciled.

Cause: Allocated Medicaid administrative expenditures from multiple departments and cost allocation systems complicate the preparation of the CMS-64 report due to timing differences between when those costs are reflected on federal reports and the State's accounting system. These timing differences are not sufficiently reconciled. Differences in the basis of preparation (cash vs. accrual) for the federal report and the State's accounting system also result in other differences which are not sufficiently reconciled to ensure that federal reports are supported by the State's official record of program expenditures.

Effect: This control deficiency increases the risk of inaccurate federal reports that are not supported by the State's accounting system.

Questioned Costs: None

Valid Statistical Sampling: Not Applicable

RECOMMENDATIONS

2018-072a Reconcile administrative expenditures reported on federal reports with Medicaid administrative accounts in RIFANS.

2018-072b Modify processes as needed to minimize reconciling items between federal reporting and RIFANS.

***Auditee views*: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

Finding 2018-073 *(significant deficiency – repeat finding – 2017-079)*

MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2016-2017 and 2017-2018
Federal Award Numbers: 1705RI5MAP and 1805RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)
Compliance Requirement: Special Tests and Provisions

SURVEILLANCE UTILIZATION REVIEW ACTIVITIES

EOHHS needs to reassess all activities considered surveillance utilization review services (SURS) performed within the Medicaid program to comply with federal regulations and amend the State Plan to accurately reflect the State's current practices. With the majority of medical services now being performed by managed care organizations, formalized procedures should include consideration of new regulations regarding Medicaid managed care activities.

Criteria: 42 CFR section 456 requires State Medicaid agencies to implement a statewide surveillance and utilization control program that (a) safeguards against unnecessary or inappropriate use of Medicaid services and against excess payments; (b) assesses the quality of those services; (c) provides for the control of the utilization of all services provided under the plan in accordance with subpart B of this part; and (d) provides for the control of the utilization of inpatient services in accordance with certain specific requirements outlined in the section of the federal regulations.

New managed care regulations under 42 CFR section 438.608 requires States to implement the following related program integrity activities in relation to contracts with managed care organizations:

- Provision for prompt reporting of all overpayments identified or recovered, specifying the overpayments due to potential fraud, to the State

- Provision for a method to verify, by sampling or other methods, whether services that have been represented to have been delivered by network providers were received by enrollees and the application of such verification processes on a regular basis.

- Provision for the prompt referral of any potential fraud, waste, or abuse that the MCO identifies to the State Medicaid program integrity unit or any potential fraud directly to the State Medicaid Fraud Control Unit.

Condition: The State currently conducts a variety of procedures relating to SURS and related program integrity activities. The State, however, does not have comprehensive documentation of how these various activities collectively meet the federal requirements relating to SURS. In addition, the State's procedures have changed over the years without amending the State plan to specifically align with the State's current practices. Changes in regulations over the years have allotted states greater flexibility in designing their SURS procedures and best practices have been documented by a variety of States and CMS. In addition, program changes such as the significant shifting of Medicaid claiming to managed care organizations, require that States reevaluate their processes to ensure that SURS controls are in place over all significant Medicaid claiming components. The State needs to specifically formulate their consideration of new regulations regarding Medicaid managed care activities.

The State's current SURS practices include a more comprehensive mix of procedures (manual and systemic), both before and after claim payment, that need to be formally documented by the State as evidence of compliance with federal regulations.

Cause: EOHHS has not recently reassessed and documented how various activities collectively meet the federal requirements relating to SURS. The Medicaid State plan has not been amended to accurately reflect the State's current practices relating to SURS, including activities specific to managed care.

Effect: Potential federal noncompliance with federal regulations relating to SURS. Failure to identify significant claiming areas where surveillance utilization control review services are not operating effectively.

Questioned Costs: None

Valid Statistical Sampling: Not applicable

<u>RECOMMENDATION</u>

2018-073 Reassess and formally document the State's comprehensive activities designed to materially comply with federal requirements relating to SURS. Amend the Medicaid State plan to accurately reflect the State's current practices relating to SURS, including those specific to managed care activities.

<u>Auditee views</u>: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2018-074	***(significant deficiency – new finding)***

BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE – CFDA 93.959
Federal Award Agency – Department of Health and Human Services
Award Year: Federal Fiscal Years 2017 and 2018
Federal Award Numbers: 2B08TI010046-17; 2B08TI010046-18
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES – PROJECTS OF REGIONAL AND NATIONAL SIGNIFICANCE – CFDA 93.243
Federal Award Agency – Department of Health and Human Services
Award Year: Federal Fiscal Years 2017 and 2018
Federal Award Numbers: Various
Administered by: Department of Behavioral Health, Development Disabilities and Hospitals (BHDDH)
Compliance Requirement: Cash Management

CASH MANAGEMENT

Cash drawdowns performed by BHDDH were not performed, or consistently supported, in a timely manner which led to excess federal cash on hand at times during fiscal 2018. BHDDH can improve its controls over cash drawdown procedures to ensure compliance with federal cash management requirements.

Criteria: Federal cash management regulations require the State to limit the amount of federal funds on hand prior to disbursement for program purposes. The State is required to draw cash for these programs in accordance with 31 CFR Part 205, Subpart B which states “a State must minimize the time between the drawdown of federal funds from the federal government and their disbursement for federal program purposes.”

Condition: BHDDH operated with positive cash balances for 207 days under the Substance Abuse Block Grant program during the fiscal year. Additionally, for both programs, supporting documentation for the amounts drawn was inconsistent or unavailable for certain drawdowns.

Cause: BHDDH lacks effective control procedures to ensure compliance with federal cash management requirements. In addition to staff turnover during the year, the department is not using the state accounting system “Cash Resources Report” which was designed to assist agencies in drawing federal cash on a time frame consistent with the timing of program disbursements.

Effect: There were significant positive cash balances in excess of immediate cash needs in the substance abuse programs throughout the fiscal year.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATIONS

2018-074a Enhance controls over cash management to ensure compliance with 31 CFR Part 205, Subpart B.

2018-074b Utilize the appropriate state accounting system “Cash Resources Report” consistently to identify and support federal amounts drawn for the programs.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2018-075 ***(significant deficiency – new finding)***

BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE – CFDA 93.959
Federal Award Agency – Department of Health and Human Services
Award Year: Federal Fiscal Years 2017 and 2018
Federal Award Numbers: 2B08TI010046-17; 2B08TI010046-18
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES - PROJECTS OF REGIONAL AND NATIONAL SIGNIFICANCE – CFDA 93.243
Federal Award Agency – Department of Health and Human Services
Award Year: Federal Fiscal Years 2017 and 2018
Federal Award Numbers: Various
Administered by: Department of Behavioral Health, Development Disabilities and Hospitals (BHDDH)
Compliance Requirement: Reporting

FEDERAL REPORTING – FINANCIAL REPORTS

BHDDH can improve its controls over federal reporting to ensure that substance abuse programs expenditures are reported accurately and consistently with federal reporting requirements.

Background: One annual report is required for the Substance Abuse Block Grant. The Substance Abuse and Mental Health Services - Projects of Regional and National Significance (CFDA 93.243) program is a composite of multiple individual grants – each grant requires a separate report.

Criteria: Recipients use the FFR as a standardized format to report expenditures under Federal awards, as well as, when applicable, cash status. References to this report include its applicability as both an expenditure and a cash status report unless otherwise indicated. Federal reports must be based on the financial system used to prepare the State's financial statements. Reports should be accurate and agree to supporting documentation.

Condition: BHDDH did not maintain supporting documentation for expenditures reported on the federal financial reports. During testing, we were unable to agree expenditures to underlying source data when reconstructed and BHDDH was not able to resolve the differences identified. As a result, expenditures reported on the federal financial reports were not reconciled to the state accounting system. We calculated differences of ($149,766) (reports less than accounting system), and $939,037 (reports more than the accounting system), for the Substance Abuse Block Grant and CFDA 93.243, respectively.

Cause: BHDDH lacks effective control procedures to ensure compliance with federal reporting requirements. BHDDH experienced turnover during the fiscal year and did not have a system in place to track expenditures reported on the FFR reports.

Effect: The federal reports detailing expenditures for the programs may be inaccurate and not supported by the State's accounting system.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATION

2018-075 Maintain supporting documentation for program expenditures reported on the federal financial reports and enhance control procedures to ensure these amounts are properly supported by and reconciled to the State accounting system.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2018-076	***(significant deficiency – new finding)***

BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE – CFDA 93.959
Federal Award Agency – Department of Health and Human Services
Award Year: Federal Fiscal Years 2017 and 2018
Federal Award Numbers: 2B08TI010046-17; 2B08TI010046-18
Administered by: Department of Behavioral Health, Development Disabilities and Hospitals (BHDDH)
Compliance Requirement: Level of Effort

MAINTENANCE OF EFFORT

BHDDH can improve its controls over the process to demonstrate and document that it complied with maintenance of effort requirements for the Substance Abuse Block Grant.

Criteria: 45 CFR 96.124(c)(1), requires the State to expend no less that the calculated fiscal year 1994 base amount for substance abuse treatment services for pregnant women and women with dependent children.

Condition: BHDDH did not maintain adequate documentation to demonstrate its compliance with the maintenance of effort requirements. While BHDDH was able to provide us with a calculation of the resources that are designated to meet the its Women's set aside requirement, the documentation lacked sufficient explanation to ensure that the amounts included were accurate and appropriate.

Cause: BHDDH lacks effective control procedures to ensure compliance with the Block Grant maintenance of effort requirements and also experienced staff turnover which contributed to the challenge in locating appropriate supporting documentation.

Effect: The State likely met the maintenance of effort requirement for the Block Grant but is at risk without sufficient documentation to demonstrate such compliance.

Questioned Costs: None

Valid Statistical Sampling: No

RECOMMENDATION

2018-076 Maintain adequate supporting documentation for meeting maintenance of effort requirements. Ensure that these amounts are properly supported by the State accounting system.

***Auditee views**: The auditee concurs with this finding – see Corrective Action Plan in Section E.*

Finding 2018-077 ***(questioned costs only – new finding)***

SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES - PROJECTS OF REGIONAL AND NATIONAL SIGNIFICANCE – CFDA 93.243
Federal Award Agency – Department of Health and Human Services
Award Year: Federal Fiscal Years 2017 and 2018
Federal Award Numbers: Various
Administered by: Department of Children, Youth and Families (DCYF)
Compliance Requirements: Allowable Costs and Federal Reporting

ALLOWABLE COSTS

Expenditures were incorrectly charged to CFDA 93.243 due to an error made in the State accounting system.

Criteria: 45 CFR Part 75.405, the Uniform Guidance for HHS Awards, states that a cost is "allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost is incurred specifically for the Federal award".

Condition: The State erroneously recorded certain expenditures related to the Medicaid program within the RI System of Care Expansion grant (Substance Abuse and Mental Health Services - Projects of Regional and National Significance – CFDA 93.243).

Cause: This error resulted from the use of incorrect account numbers in a journal entry posted to the State accounting system which originated by the Executive Office of Health and Human Services, the agency responsible for administering the Medicaid Program.

Effect: Expenditures totaling $126,072 were incorrectly charged to the Substance Abuse and Mental Health Services - Projects of Regional and National Significance – CFDA 93.243 program.

Questioned Costs: $126,072

Valid Statistical Sampling: No

RECOMMENDATION

2018-077 Process accounting adjustments and revise federal reports to correct the error in recording program expenditures.

Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Finding 2018-078 **(significant deficiency – new finding)**

BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE – CFDA 93.959
Federal Award Agency – Department of Health and Human Services
Award Year: Federal Fiscal Years 2017 and 2018
Federal Award Numbers: 2B08TI010046-17; 2B08TI010046-18
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES - PROJECTS OF REGIONAL AND NATIONAL SIGNIFICANCE – CFDA 93.243
Federal Award Agency – Department of Health and Human Services
Award Year: Federal Fiscal Years 2017 and 2018
Federal Award Numbers: Various
Administered by: Department of Behavioral Health, Development Disabilities and Hospitals (BHDDH)
Compliance Requirement: Subrecipient Monitoring

SUBRECIPIENT MONITORING

BHDDH can enhance its monitoring of subrecipients as required by federal program requirements.

Criteria: Under the Uniform Guidance, the State is required to monitor the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. A vital component of the monitoring process is to maintain internal controls that would provide reasonable assurance of detecting compliance violations related to the expending of federal awards. A critical piece of this evaluation is the determination as to whether the subrecipient is required to have a Single Audit performed and review of the subrecipient's audit reports.

Condition: BHDDH has allocated resources to monitor both fiscal and programmatic grant activity but lacks a cohesive process to ensure sufficient oversight of subrecipients which results in increased risk of noncompliance. We noted the following:

- BHDDH can better define required support from subrecipients for reimbursement requests and can enhance and standardize onsite monitoring procedures to ensure the reliability of supporting documentation. In our tests of subrecipient expenditures, supporting documentation was found to be lacking and inconsistent as to the extent of documentation received from the subrecipients.

- In some instances, payments made to certain subrecipients were allocated to multiple federal programs, which differed from the original subaward contracts. For example, for certain instances where the original subgrants were made from the Substance Abuse Block Grant, grant amendments were made to the original contracts to add services allocable to other grants. While the amendments included additional budgets, they did not adequately document the allocation between federal programs. As a result, when invoices were submitted for reimbursement by the subrecipients, in some instances, the expenditures were allocated incorrectly between the federal programs. This includes $43,312 and $49,921 of expenditures for RI State Targeted Response to the Opioid Grant (CFDA 93.788) that were originally charged to the Substance Abuse Block Grant and the Discretionary Grant (Strategic Prevention Framework Partnership for Success – CFDA 93.243) respectively. A journal entry in 2019 corrected the error and charged the appropriate grant, however for fiscal 2018 the expenditures were allocated to the incorrect CFDA.

  When making subawards, the pass-through entity (State) must ensure that the sub-grantee is aware of the specific grant award information (CFDA number and related compliance information) to ensure compliance with grant provisions. Adjustments and re-allocations that are subsequently made increase the risk that the subrecipient would be unaware of the specific compliance requirements.

- The Executive Office of Health and Human Services (EOHHS) centralizes the collection and review of subrecipient audit reports for its departments, including BHDDH. EOHHS identifies the subrecipients exceeding the Uniform Guidance dollar threshold which requires a single audit. However, one of the three subrecipients (Substance Abuse Block Grant), which met the threshold, was not identified as meeting the criteria and was not reviewed.

Cause: BHDDH can improve its overall subrecipient monitoring procedures and controls. Grant managers operate with a certain level of autonomy, leading to different levels of support and monitoring across the various grants.

The scope of services for the original contracts was expanded to simplify the procurement process and the related correspondence between the BHDDH and the subrecipients.

Subaward payments to certain subrecipients during fiscal 2018 were not initially recorded by BHDDH using the natural account to identify subrecipient payments. While subsequently corrected in the accounting system, EOHHS's analysis did not identify those payments as subawards.

Effect: Subrecipients may not comply with federal requirements when expending pass-through awards.

Questioned Costs: $93,233 - $43,312 for the Block Grants for Prevention and Treatment of Substance Abuse – CFDA 93.959 and $49,921 for Substance Abuse and Mental Health Services - Projects of Regional and National Significance – CFDA 93.243.

Valid Statistical Sampling: No

<u>RECOMMENDATIONS</u>

2018-078a Enhance the coordination of overall subrecipient monitoring procedures to ensure compliance with federal requirements by sub-grantees. Design procedures for tracking monitoring results and communicating issues identified.

2018-078b Develop a uniform standard for documentation required from subrecipients to support requests for reimbursement.

2018-078c Ensure contracts and subaward documentation contains all the required elements at the time of award to allow compliance by subgrantees.

2018-078d Coordinate with EOHHS to ensure all subrecipients are identified to allow collection and review of applicable single audit reports.

<u>Auditee views</u>: The auditee concurs with this finding – see Corrective Action Plan in Section E.

Corrective Action Plans

(prepared by the State's management)

Finding 2018-001 – Corrective Action Plan

2018-001a – It was essential that the State has the required competency to evaluate vendors for a feasible plan. This has been a focus for the CIO/CDO. Now that the IT leadership team has been staffed, the project is further positioned for success.

Anticipated Completion Date: December 2019 for delivery of strategic plan, followed by a multi-year execution

2018-001b – The strategic plan will address the strategy for the RIDOT FMS and DOA RIFANS System.

Anticipated Completion Date: December 2019 for delivery of strategic plan

2018-001c – Cost has not yet been determined, IT Governance Committee will review request and determine funding source after completion of strategic plan.

Anticipated Completion Date: As the strategic plan will be completed in December 2019, the IT Governance Committee will recommend a funding source in Q1 2020.

Contact Person(s): Chirag Patel, Chief of IT, Agency and Enterprise Applications
DOA, Division of Information Technology
Phone: 401.574.9291

Finding 2018-002 – Corrective Action Plan

2018-002a – EOHHS acknowledges the complexity of our financial activities and that there are payments based on manual calculations. The finding most notably focused on our MCO risk share settlements; as such, EOHHS acknowledges the complexity: Each month, the health plans submit to EOHHS cumulative risk/gain share statements for the open contract periods up until the contract run-out period occurs. These financial statements are recorded by EOHHS and reconciled with the MCOs' Finance team monthly and annually. There are generally three fiscal years' worth of contracts open at any time (current SFY, prior SFY awaiting the allowed run-out, and SFY currently being reconciled), and with five or six products per contract and two to three health plans per product, the number of discrete liabilities being routinely monitored is significant. Further, each product may have multiple risk shares programs. The risk share contract run-out period occurs 12 months after the contract end date. Final risk/gain share settlements are based on claims paid experience only. No allowance is provided for incurred but not reported (IBNR) claims. At the end of the 12-month claims run-out period, the contracts call for a final risk/gain share contract settlement statement with the MCO. Notwithstanding previous reviews and/or interim payments, the risk share reports received from the health plans at the end of the run-out period undergo a thorough systematic review and analysis to determine the final settlement amounts.

EOHHS has documented the control processes and delineated the responsibilities carried out by contractors to ensure that the risk for error is minimized: EOHHS' consultants compare the total member months, the medical premiums paid to the MCOs, and the actual medical expenses, as reported in the risk/gain share statements, to the derived member months, medical premiums, and medical expenses provided from EOHHS' MMIS system. If required, EOHHS may request the health plan to submit a claims file that supports the claims dollar payments that appear on its risk/gain share statements. The difference after any reconciliation must be within one percent of each other. Once the health plan's final risk/gain share contract settlement statement is deemed to be accurate, the risk/gain share final contract settlement is presented to EOHHS senior management for final review and approval prior to final monetary settlement with the MCOs. EOHHS' Deputy Medicaid Program Director, Finance and Deputy Medicaid Program Director, Managed Care and Oversight sign-off on all financial transactions with the MCOs.

An important component of this reconciliation is the complete and accurate claims data reported by the MCOs in MMIS. EOHHS has recently implemented a process to improve the delivery of encounter data from the MCOs to the MMIS System. A dedicated team from EOHHS, DXC, and the MCOs meets weekly to work through rejected encounter data and to upgrade the MMIS System to ensure encounter claims are accepted into the System. MCO Contract Amendments now require that 98 percent of encounter claims must be accepted into MMIS within 75 days of the date the claim was paid. If an MCO is not compliant, the MCO may be placed on a corrective action plan or be subject to a financial penalty.

Anticipated Completion Date: Ongoing

2018-002b – Approximately 90 percent of all members eligible for Rhode Island Medicaid are enrolled in a managed care plan responsible for the delivery and payment of all eligible medical services. In total, over $1.6 billion in capitation is paid to the managed care plans. Given the magnitude of these expenditures, EOHHS has sought to improve its financial oversight of these Health Plans who remain outside of EOHHS' direct financial systems and controls.

Last year, EOHHS finance staff and its contractors reviewed all the financial controls governing the claims processing and financial accounting system of the State's major managed care plan partners—United Healthcare Community Plan of New England, Neighborhood Health Plan of Rhode Island (NHPRI), and Tufts Health Plan. The Health Plans' controls included the following: annual audited financial statements, including opinions, from external auditors; annual actuarial opinions from external auditors; NAIC and DBR statutory filings, including risk-based capital reports; model audit rule compliance; monthly and annual financial result reviews with senior management, including general ledger account reconciliations; comprehensive financial account analyses; various internal and external systems controls including claims processing, accounts payable, and general ledger systems. UnitedHealthcare and Tufts Health Plan conduct SOC-type audits; UnitedHealthcare's compliance with the Sarbanes-Oxley Act; NHPRI has received an extension from the DBR to be fully compliant with the Model Audit Rule by June 30, 2018. Also, NHPRI retained an outside firm to finalize the company's overall risk assessment, including implementation, and expects to hire additional staff to ensure on-going MAR compliance.

To further ensure the integrity of the Health Plans' controls and financial reporting, EOHHS' contracts require that the health plans' external auditors, in their annual report of independent auditors, specifically address their review and testing of the health plans' risk/gain share financial statements and the health plans' various receivables and/or payables to/from EOHHS, as of December 31 of each year. EOHHS also requires that all financial statements provided to EOHHS be accompanied by an attestation document, signed by an officer or senior administrator of the MCO, attesting to the accuracy and completeness of the financial statements. The reports are used to estimate EOHHS' outstanding liabilities to the Health Plans for purposes of caseload estimating conference and year-end accruals. The above controls and reporting requirements adhered to by the Health Plans give EOHHS confidence in the financial reporting by the Health Plans.

Anticipated Completion Date: Ongoing

Contact Person(s): Katie Alijewicz, Deputy Medicaid Program Director, Finance
Executive Office of Health and Human Services
Phone: 401.462.0136

Finding 2018-003 – Corrective Action Plan

_2018-003a_ – EOHHS continues to review all manual payments and identify those that occur with enough regularity and predictability to be processed through the scheduled cycles or the State's financial system, RIFANS. For example, the Upper Payment Limit quarterly payments and the monthly RI Quality Institute payment are now processed through the State's procurement system as batch payments. When issues with processing eligibility through RIBridges are finally resolved, the interim payments will stop and the number of FACNs and associated dollar amounts will diminish considerably.

Anticipated Completion Date: June 30, 2020

_2018-003b_ – The fiscal agent has developed and submits for EOHHS's review a monthly report recapping all finance-related Fiscal Agent Control Notes (FACNs) processed that month. EOHHS Finance also maintains a monthly log of all FACNs it approves, capturing all pertinent data, and reconciles this log with the Fiscal Agent's monthly report. Any discrepancy is promptly researched and resolved. In addition, EOHHS receives frequent Accounts Receivable reports from the Fiscal Agent that allows for monitoring and review of all advances outstanding. Any discrepancy is also promptly researched and resolved.

Anticipated Completion Date: June 30, 2020

Contact Person(s): Corsino Delgado, Associate Director, Financial Management
Executive Office of Health and Human Services
Phone: 401.462.2517

Finding 2018-004 – Corrective Action Plan

Subject to resource availability we will partner with a firm with COSO expertise to begin a multi-year effort to develop and implement a methodology to document major business process flows and identify the internal controls in each of these major processes. In addition, a risk assessment will be incorporated in the methodology to identify areas where internal controls need to be strengthened. Also, the existing best practice guides on the Controller's web site will be supplemented with additional ones for other key state-wide processes. Further, existing training materials will be updated and training will be conducted again. Finally, we will obtain and review existing SOC reports in this effort.

Anticipated Completion Date: March 31, 2020

Contact Person(s): Peter Keenan, State Controller
DOA, Office of Accounts and Control
Phone: 401.222.6408

Finding 2018-005 – Corrective Action Plan

Management agrees that there are escrow accounts that need to be reviewed and reconciled.

2018-005a – The Office of Accounts and Control conducted a review of existing escrow liability accounts, and 16 dormant accounts were deactivated as a result. A request for an updated reconciliation for each active account was sent to all cognizant agencies. Results will be analyzed in order to determine if a) the escrow account is properly classified as a liability, and b) the escrow account has a current and accurate reconciliation between the liability balance and the underlying individuals or entities for which the amounts are held.

For those accounts that should not have been created as escrow accounts and are determined to be more properly classified as restricted revenue accounts, management will work with the Budget Office to create those revenue accounts and move the existing balances into them.

Anticipated Completion Date: June 30, 2019

2018-005b – Management has updated procedures for the creation, monitoring and reconciliation of escrow liability accounts. Policy **OAC Liability Escrow Accounts and Related Controls** was sent to Agency CFOs and other cognizant individuals and posted on the DOA Policy website and the Accounts and Control website on February 1, 2019.

Anticipated Completion Date: Completed

Contact Person(s): Jennifer Findlay, Associate Controller – Finance
DOA, Office of Accounts and Control
Phone: 401.222.5771

Finding 2018-006 – Corrective Action Plan

The Office of Accounts & Control is currently conducting a review of the processes used to account for and present the components of fund balance and the changes therein. After this review is complete, improvements identified will be incorporated into the FY2019 closing process.

Anticipated Completion Date: June 30, 2019

Contact Person(s): Benjamin Quattrucci, Supervisor of Financial Reporting
DOA, Office of Accounts and Control
Phone: 401.222.6406

Finding 2018-007 – Corrective Action Plan

The policy will be updated collaboratively by the Office of Management and Budget, the Controller and the Division of Information Technology.

Anticipated Completion Date: September 2019

Contact Person(s):

Johnathan Womer, Director
DOA, Office of Management and Budget
Phone: 401.222.2280

Peter Keenan, Controller
DOA, Office of Accounts and Control
Phone: 401.222.6408

Meghan Neary
DOA, Division of Information Technology
Phone: 401.574.9220

Finding 2018-008 – Corrective Action Plan

Management agrees with Finding 2018-008. This finding has been addressed and resolved. Treasury believes that adequate restrictions and segregation of access levels have been established over the financial and banking systems accessed by Treasury staff and agrees with the auditor that no additional corrective actions are required at this time. Below are examples of our current process that are in place for recording journals into our financial system:

Requesting Journal entries: Performed by an individual with no access to recording or approving journals and no banking processing privileges.

Recording Journal entries into RIFANS (Financial system): Performed by an individual with no access to approving journals and no banking processing privileges.

Approving Journal entries: performed by an individual with no access to recording journal entries or banking processing privileges.

Based on the current configuration of financial system and banking access, there is no risk that would result in unauthorized transactions or misstatement due to fraud or error by one single individual.

While we are confident that adequate controls and segregation of duties are in place, Treasury is committed to continuous process improvement, and will continue to examine ways to further enhance controls where appropriate.

Anticipated Completion Date: June 30, 2018

Contact Person(s):

Brian Conklin, Chief Fiscal Manager
Office of the General Treasurer
Phone: 401.462.7687

Finding 2018-009 – Corrective Action Plan

2018-009a – A report was developed during FY2018 and is being used to identify any changes that are made to critical risk items. This report is reviewed regularly in order to verify that any changes that were made to these items were made as requested.

2018-009b – A report has been developed and is being used to identify vacation rules for accounts payable users that are created to verify that these rules are in compliance with the policies related to delegated user access. This report will be modified to allow for more efficient use relating to general ledger users and will be reviewed regularly. RIFANS users that are creating vacation rules that are not in compliance are notified and instructed on the proper use of vacation rules.

Anticipated Completion Date: June 2019

Contact Person(s): Peter Hodosh, Assistant Director of Special Projects
DOA, Office of Accounts & Control
Phone: 401.222.6404

Finding 2018-010 – Corrective Action Plan

First, we want to emphasize that major types of accounts receivable, including those for the Division of Taxation and the Judiciary, are recorded in state-of-the-art software applications that were recently implemented by those agencies.

As part of the initiative to develop a strategic plan for all critical centralized administrative systems that is discussed in finding 2018-001, we will further consider if it is cost beneficial to make enhancements to current processes to allow the balances for major categories of accounts receivable to be updated in the general ledger on a more frequent basis.

Anticipated Completion Date: March 31, 2020

Contact Person(s): Peter Hodosh, Assistant Director of Special Projects
DOA, Office of Accounts & Control
Phone: 401.222.6404

Finding 2018-011 – Corrective Action Plan

The Budget Office will work with the State Controller and the State Auditor General to improve the presentation of budget information in the annual appropriations act to facilitate budget-to-actual comparisons and reporting. It should be noted that the Appropriations Act is not intended to be an accounting document and thus may not be the place to identify certain information, but adding new information that may be useful to all parties that use this document may be worthwhile.

Anticipated Completion Date: October 2019

Contact Person(s): Thomas Mullaney, State Budget Officer
DOA, Office of Management and Budget
Phone: 401.222.6300

Finding 2018-012 – Corrective Action Plan

Treasury agrees with this finding and will work with the Office of Accounts and Control and the Budget Office to effectuate a transition of monitoring for funds on deposit with Trustees to Treasury personnel. Funds will be monitored by the Investments group. Assistance with monitoring provisions of covenants will be facilitated by staff from the Office of Debt Management. We will develop and review a comprehensive list of funds on deposit with trustees. We believe that many of these funds are controlled by RI Commerce Corp.; however, we are not currently receiving regular statements. We will coordinate with RICC to ensure regular transmission of statements. Once we have the statements, we will perform a regular review to ensure that the investments are in compliance with the bond covenants. Once we have the documents from all of the trustees, we will determine the best way to perform this review.

Anticipated Completion Date: June 2019

Contact Person(s): Jeff Thurston, Cash Manager
Office of the General Treasurer
Phone: 401.462.7642

Finding 2018-013 – Corrective Action Plan

The Office of Management and Budget's Grant Management Office has reissued the RFP to engage a vendor to develop and implement a Grants Management System. The end-to-end grants management system will automate and administer the grants management business process across state agencies turning disparate systems, data sources, files, and processes into a single, centralized repository for use by all state agencies. The system will integrate with state's financial system and will automate workflow to improve efficiency and promote transparency. The planned grants management solution includes functionalities that will result in the fulfillment of the outlined statutory responsibilities.

The Grant Management Office spent significant effort over the last year analyzing the grants management business process across the State agencies who receive funding from external sources, including but not limited to federal agencies and foundations. This effort included detailed discovery meetings with State agency stakeholders at all levels over the course of several months. The extensive work, research, and analysis completed in partnership with these State agencies has resulted in:

- Standardization of grant business processes, tools, templates, workflows, and approval paths;
- Working proof-of-concept code and infrastructure to integrate a Grants Management System to the State financial system (RIFANS);
- Approval and creation of a "Grant Award Task" flex field in RIFANS, which will streamline agency grant reporting and expenditure tracking; and
- Testing of payroll allocation for grant-funded staff and the related automated journal entry process.

Written policies and procedures will be developed to support the business process once the system development is complete.

The Office of Management and Budget's Grant Management Office anticipates signing a Notice of Tentative Award in March 2019 and having the vendor onsite beginning in May 2019. The system will be developed and rolled out to the 28 agencies over a period of two years.

Anticipated Completion Date: July 2021

Contact Person(s): Laurie Petrone, Director of Grants Management
DOA, Office of Management and Budget
Phone: 401.574.8423

Finding 2018-014 – Corrective Action Plan

_2018-014a_ – To improve functionality within statewide financial systems, the state has added a new flex field to RIFANS to facilitate federal grant administration, including grants management, cash management, and cost allocation. The new flex field, Grant Award Task, will be setup in the Grant Management System at award setup and interfaced with RIFANS. Each Grant Award Task will have an end date. Use of the Grant Award Task will allow the state agencies to track and report expenditures at the most granular level required by the federal funding agency with the official system of record.

Anticipated Completion Date: July 2021

_2018-014b_ – See Corrective Action Plan for Finding 2018-013 above.

Anticipated Completion Date: July 2021

Contact Person(s): Laurie Petrone, Director of Grants Management
DOA, Office of Management and Budget
Phone: 401.574.8423

Finding 2018-015 – Corrective Action Plan

A full, off-site disaster recovery test is planned for April 2019 for all of the major applications across the agencies; to include DMV RIMS system as well.

Anticipated Completion Date: May 2019

Contact Person(s): Brian Tardiff, CISO
DOA, Division of Information Technology
Phone: 401.462.1783

Finding 2018-016 – Corrective Action Plan

In fiscal 2019, 30% of the DoIT team including leadership, all Agency IT managers and Help Desk staff have been trained in ITIL (IT Service Management). This was essential prior to selecting and rolling out a tool. DoIT is in the process of acquiring an industry leading Information Technology Service Management (ITSM) suite of tools that incorporates change management functionality. The tool has been selected and vendor evaluations for licensing and implementation are being carried out. This ITSM solution will support enterprise IT operations; relevant change management policy and controls will be published in conjunction with the roll out of the ITSM platform.

Anticipated Completion Date: December 2019

Contact Person(s): Brian Tardiff, CISO
DOA, Division of Information Technology
Phone: 401.462.1783

Finding 2018-017 – Corrective Action Plan

_2018-017a_ – In 2018 and 2019 the State significantly improved its security posture including hiring a CISO from the National Guard and improving people, process and technology for security. A comprehensive and thorough review and re-publishing of the enterprise security policies, procedures and guidelines has in process. This review is ensuring that all documents are relevant to business operations and adhere to the established NIST CSF. A priority of effort has been determined based on audits conducted by the IRS, SSA, OAG, and the recommendations from the security assessment performed by Ernst & Young. This work is well on its way.

Anticipated Completion Date: December 2019

_2018-017b_ – An internal audit and compliance arm of the enterprise security team has been established and is executing risk assessments, pre-audits, and policy reviews across the enterprise. Corrective Action Plans (CAP) and Plan of Actions and Milestones (POAM) will be developed for tracking progress towards compliance with security policies and procedures, as well as internal and external audit findings.

Anticipated Completion Date: December 2019

_2018-017c_ – Governance is in place for security review through the lifecycle of any proposed IT solution. The Project Review Committee (PRC) reviews all project requests for security concerns. The Vendor Management Office (VMO) integrates a standardized security questionnaire to vendors during the request for purchase (RFP) process. DoIT security then reviews the responses for validation of appropriate security controls by any proposed vendors. The Architecture Review Board (ARB) ensures that approved projects are integrated into the enterprise environment in a secure manner. Tools are in place to perform penetration testing of any new applications prior to deployment and vulnerability scans are performed against all network connected devices on a weekly basis. An IT System and Service Acquisition Guideline is being developed to identify the correct process for development and acquisition of new IT systems and services.

Anticipated Completion Date: August 2019

_2018-017d_ – DoIT enterprise security is engaged with the UHIP security team to standardize and document a Corrective Action Plan (CAP) and Plan of Action and Milestones (POAM) reporting structure that prioritizes significant system security risks for tracking and achieving compliance with DoIT security policies, configurations and standards.

Anticipated Completion Date: December 2019

Contact Person(s): Brian Tardiff, CISO
DOA, Division of Information Technology
Phone: 401.462.1783

Finding 2018-018 – Corrective Action Plan

We agree with this recommendation and it is important to note that this was implemented before the close of fiscal year 2018, to the extent the data was available.

The Division of Taxation confirms that with the new STAARS system, more data is readily accessible and can be used in end-of-year estimation in conjunction with the Office of Accounts & Controls. The Division of Taxation has been meeting with the Office of Accounts and Controls to explain the assumptions and distinctions between the legacy mainframe system and STAARS data. Given the transition issues including, but not limited to, timing and workflow of returns (and related revenue impacts), it has been the position of the Division of Taxation and Accounts and Controls that we will review historical trends in STAARS before relying solely on additional STAARS data. The conversion from the legacy mainframe system and processes over to the new integrated system software-based STAARS system has resulting timing issues that need to be cautiously evaluated and analyzed over time before reliance on additional data for financial reporting purposes.

While there have been discussions on breaking out selection of data by Account Type and/or GL in the future, the Division of Taxation will continue to collaborate with the Office of Accounts and Controls and will provide any necessary data and information required by the Office of Accounts and Controls. The Division of Taxation and Office of Accounts & Controls have been meeting throughout the transition from Mainframe to STAARS to discuss Mainframe historical data versus STAARS historical data and perform a comparative analysis between the two, including but not limited to the assumptions and distinctions between legacy mainframe data and STAARS data, timing issues. For FY 2018, the Division of Taxation provided comparative data to Accounts and Controls for its evaluation and use and will continue to provide data. During FY2019, Division of Taxation and Office of Accounts and Controls are actively evaluating more targeted data sets to allow for Office of Accounts and Controls to reevaluate certain methodologies. It is not within the Division of Taxation's authority to comment on or determine whether the estimates used for financial reporting purposes could be insufficiently supported by current tax filing and tax collection experience. This is a continuing iterative process that will take several more years to complete. The Division of Taxation continues to collaborate with the Office of Accounts and Controls.

Anticipated Completion Date:	June 30, 2019, to the extent data is available, and ongoing thereafter until completed, by June 30, 2021
Contact Person(s):	Neena Savage, Tax Administrator DOR, Division of Taxation Phone: 401.574.8922 Kristin Cipriano, Chief Revenue Agent DOR, Division of Taxation Phone: 401.574.8868 Rahul Sarathy, Chief of Examination DOR, Division of Taxation Phone: 401.574.9239

Finding 2018-019 – Corrective Action Plan

Having returns held in suspense pending resolution of errors is a normal condition in any entity that processes a large volume of complex filings such as tax returns. In and of itself the suspense process is an important internal control and the STAARS system has been designed to enhance those controls.

The methods used to develop significant financial statement estimates utilize information from returns processed for multiple years.

The number of returns in suspense has declined significantly over the past few years due to actions taken by the Division of Taxation.

It is management's opinion that the returns in suspense do not have a significant effect on any amounts included in the State's financial statements.

Historically, there has always been a backlog and an error register given the volume of tax returns and payments processed each year. Currently over 2.5 million returns/payments are processed annually. Since full integration of STAARS, the Division of Taxation has implemented significant operational efficiencies, streamlined processes, and realized significant improvements in backlogs compared with the legacy mainframe processing system. Taxation agrees in general that as with any new system, there must exist a feedback loop to analyze and monitor practices, leverage lessons learned, and iteratively improve the system to be more efficient. The various sections in Taxation constantly review their business processes and suggest ways to improve, including reducing the quantity of exceptions reviewed and the cause of those exceptions. Taxation is cautious not to change too much in a single occasion, preferring incremental, measurable improvement over wholesale changes. In the recent year, there have been great strides in the speed in which returns are processed and refunds are sent to taxpayers, part of which results from targeted changes to the business rules of those processes.

In FY19, Division of Taxation updated how withholding forms are processed, resolving a substantial volume of work items by taking advantage of features available in the new integrated tax system. Additionally, legislation has been submitted to modernize the withholding tax code to allow for less burdensome filing requirements and streamlined processing. Other areas that have been substantial improvements with respect to throughput include processing or paper returns, review of refunds, triage and resolution of system issues and streamlining of compliance mechanisms.

It is important to note that the data referenced in this finding was on a list that is not the basis for data provided to Office of Accounts and Controls. Data provided to Office of Controls undergoes a multiphase review process to ensure for accuracy and validity before it is submitted. There are also additional control processes that occur between the Office of Accounts and Controls and Taxation to review and confirm data accuracy before it is finalized for submission for financial reporting purposes.

It is not within the Division of Taxation's authority to comment on or determine whether the estimates used for financial reporting purposes could be insufficiently supported by current tax filing and tax collection experience.

2018-019a – This is occurring on a weekly basis across all sections in several weekly business operations meetings and daily within each unit.

2018-019b – This is occurring on a weekly basis across all sections in several weekly business operations meetings and daily within each unit.

Anticipated Completion Date: Ongoing

Contact Person(s):	Neena Savage, Tax Administrator DOR, Division of Taxation Phone: 401.574.8922 Rahul Sarathy, Chief of Examination DOR, Division of Taxation Phone: 401.574.9239

Finding 2018-020 – Corrective Action Plan

This finding was communicated confidentially.

Finding 2018-021 – Corrective Action Plan

The Division of Taxation acknowledges this finding, however defers to the Office of Accounts & Control as to the correct method of accounting.

Office of Accounts & Control Comments:

While we agree with in principle with this recommendation, the amount involved was not material to the State's financial statements in fiscal year 2018. In addition, we have been informed that the costs involved were reflected in the budget as an offset to revenue rather than an appropriation with an associated expenditure.

In fiscal year 2019 we will work again with staff from the Division of Taxation, Department of Revenue CFO Office, Office of Revenue Analysis and the Office of Management and Budget to reassess the current accounting treatment considering especially the materiality or immateriality of the amounts involved to ensure that the State's financial statements are fairly stated and that the reporting of the costs is consistent with the budget as enacted.

Anticipated Completion Date:	June 30, 2020
Contact Person(s):	Neena Savage, Tax Administrator DOR, Division of Taxation Phone: 401.574.8922 Peter Keenan, Controller DOA, Office of Accounts & Control Phone: 401.222.6408

Finding 2018-022 – Corrective Action Plan

The Division of Taxation has been actively working on this finding.

During the STAARS Implementation Project, Users Roles were created to control access to: 1) Account Types, 2) System Functionality and 3) dollar thresholds within the STAARS system. For each of the implementation releases, the various business units involved evaluated their job functions, and subsequently a broad, three tier structures was implemented to control access based on the Unit and the designation of Employee, Supervisor or Manager for a given STAARS user. These broader roles were constructed such that Taxation could ensure the continuity of business in the new system. The final major production release for Taxation occurred in November 2016 and there are on-going organizational business process shifts occurring related to the full integration of STAARS that impact designation of User Roles.

The planned business modernization approach was to use the system in Production, and once the system had matured and was running smoothly, to re-evaluate Business Processes, including refining User Roles and the system access that accompanies each User Role.

In 2017, the Division of Taxation began to examine various business processes with changes incorporated into Production starting in January 2018. To support these and future changes, the Division of Taxation has trained additional resources on the administration and manager of both the STAARS system security profiles and that of Windows Active Directory, using the existing STAARS SDLC.

The goal of the Division of Taxation business process modernization effort and STAARS User Profile revisions is to apply the experience over the past three years to make the users more streamlined and efficient, as well as to better control access to accounts, functions and thresholds, ensuring proper division of duties, with appropriate checks and balances. We expect this to be an iterative process over the next two years, with the User Roles redefined and updated along the way.

Anticipated Completion Date: December 2020

Contact Person(s):

Rahul Sarathy, Chief of Examination
DOR, Division of Taxation
Phone: 401.574.9239

Daniel Clemence, Chief, Tax Processing Services
DOR, Division of Taxation
Phone: 401.574.8732

Finding 2018-023 – Corrective Action Plan

The Division of Taxation agrees with this recommendation and is currently in the process of drafting a Request for Proposal for an integrated cashier solution with STAARS. Funding for this project has already been received from the IT investment fund and Taxation is in the process of selecting a vendor. The expectation is this new system will go live at the beginning of the 2021 fiscal year (July 1, 2020).

Anticipated Completion Date: July 1, 2020

Contact Person(s):

Neena Savage, Tax Administrator
DOR, Division of Taxation
Phone: 401.574.8922

Rahul Sarathy, Chief of Examination
DOR, Division of Taxation
Phone: 401.574.9239

Kristin Cipriano, Chief Revenue Agent
DOR, Division of Taxation
Phone: 401.574.8868

Finding 2018-024 – Corrective Action Plan

_2018-024a_ – Risk Assessments are completed prior to each major software deployment and upgrade.

Mitigation techniques are carried out based on each finding, and known risks are presented to the Agency.

Vulnerability assessments are automatically scheduled monthly on all servers as per IRS Publication 1075 requirements.

The Agency Information Manager will partner with the Enterprise Operations Center, Chief Security Information Officer and Technical Support Manager to document, coordinate and plan a more formal risk assessment policy with detailed procedures and plans.

_2018-024b_ – The Technical Support Manager (TSM) is coordinating with the DoIT Technical team to see whether these findings can be addressed with the existing printer models in use. If not, replacement of the printers would be required. To mitigate this risk, policy and training will be drafted and conducted with Taxation staff to reinforce best practices.

Procedures and control for restricting mobile storage devices are being addressed by DoIT Enterprise Security team. Network Access Control software, and the restriction of USB drives of any kind is currently being addressed by the DoIT Enterprise Team. Policy documenting these and other procedures is pending signatures from DOA Leadership.

_2018-024c_ – All missing contact information has been included in the agency business continuity plan.

_2018-024d_ – A log aggregation and monitoring system is being implemented by the DoIT Enterprise Team.

Incidents and anomalies will be reported and flagged at a higher level to ensure review occur on these events. Automated monitoring and alerts are being configured and baselines are being benchmarked. The security management plan will be updated to reflect the new and updated policies.

Anticipated Completion Date: December 2019

Contact Person(s):

Rahul Sarathy, Chief of Examination
DOR, Division of Taxation
Phone: 401.574.9239

Anand Puravangara, IT Project Manager
DOA, Division of Information Technology
Phone: 401.574.9220

Patrick O'Donnell, Technical Support Manager
DOA, Division of Information Technology
Phone 401.430.0921

Finding 2018-025 – Corrective Action Plan

The DMV is working on adapting the existing Revenue Report to identify the transaction types that are associated with the funds transferred to RIDOT. This report will be provided to RIDOT on a monthly basis for reconciliation of the funds transferred. The DMV has met with RIDOT to determine if the data available in the Revenue Report is sufficient for their needs, and to identify any additional information that will be needed for monthly reconciliations.

Anticipated Completion Date:	The DMV expects to be able to start providing the monthly reconciliation reports to RIDOT in July 2019.
Contact Person(s):	Paul Dombrowski DOR, Division of Motor Vehicles Phone: 401.462.5853

Finding 2018-026 – Corrective Action Plan

The Division of Information Technology (DoIT) will create a Risk Assessment policy and program that will become the standard for all agencies. It will include a Plan of Action and Milestones (POA&M) in accordance with the National Institute of Standards and Technology (NIST) Cybersecurity Framework (CSF).

Upon State acceptance of the Risk Assessment framework, each Agency Information Manager will collaborate with DoIT, the Enterprise Operations Center, Chief Security Information Officer and Technical Support Manager to create the DMV's formal Risk Assessment policy with detailed procedures and plans.

Risk Assessments will be completed and documented prior to each major software deployment and upgrade. Mitigation will be performed for each risk finding, and known risks presented to the Agency.

Automated vulnerability scans are scheduled monthly on all servers. Risks will be reported and mitigated with the Enterprise Operations Center.

The DMV will perform a full risk assessment once every three years, schedule to be determined.

Anticipated Completion Date:	DoIT will have a Risk Assessment policy and program template completed by December 31, 2019. DoIT will work with the DMV to create a DMV-specific Risk Assessment plan by June 30, 2020.
Contact Person(s):	Tim McCarthy, Agency Information Manager DOA, Division of Information Technology Phone: 401.462.5817 Steve Beauchemin, Technical Support Manager DOA, Division of Information Technology Phone: 401.462.4704

Finding 2018-027 – Corrective Action Plan

The Division of Motor Vehicles will review and update the existing Business Continuity Plan (COOP) through the BOLD Planning Portal.

The DMV will incorporate the Disaster Recovery procedures scheduled to be tested and verified April 9, 2019 through April 12, 2019.

The Administrator may exercise their authority to extend expiration dates for any permit, license, registration, certificate, placard or other privilege issued by the DMV for a period of up to ninety (90) days when the administrator's ability to properly perform their duties is prevented, hindered, impaired or otherwise delayed by major events, disasters, or occurrence of any other similar event that warrants such extension.

Anticipated Completion Date:	The DMV will review and update the COOP quarterly. We will schedule and perform annual business continuity exercises by April 30, 2020.

Contact Person(s): Charles Hollis, Assistant Motor Vehicles Administrator
DOR, Division of Motor Vehicles
Phone: 401.462.5702

Finding 2018-028 – Corrective Action Plan

The DMV system security plan is in development with collaboration with DoIT. The plan will include:

- Overview of the security requirements of the system and description of the controls in place to meet the requirements.
- Detailed explanation of responsibilities and expected behavior of all individuals who access the system.
- Assignment of an Information Security Officer or creation of a Security Committee.
- Policies and procedures for classification, management, and access of sensitive data inventory

Anticipated Completion Date: The security plan is expected to be completed by April 30, 2020.

Contact Person(s): Tim McCarthy, Agency Information Manager
DOA, Division of Information Technology
Phone: 401.462.5817

Steve Beauchemin, Technical Support Manager
DOA, Division of Information Technology
Phone: 401.462.4704

Finding 2018-029 – Corrective Action Plan

2018-029a – *Short Term:* During FY 2018, RIDOT did work to improve the fund balance procedure. During this process fund activity was reconciled by RIFANS line items for all Federal accounts to ensure accuracy and consistency. Any inconsistencies found are adjusted at that time. However, due to turnover in the section improvements were not made to the extent RIDOT was hoping. During FY 2019, a working group has been established to develop policies and procedures to improve the fund balance reconciliation and ensure the process is compliant with GASB 54 standards. The short-term goal will include implementing the adopted policies and procedures to all Federal fund balance accounts.

Long Term: Once the adopted policies and procedures have been implemented for all Federal fund balance accounts, RIDOT will expand the reconciliation to include all State fund balance accounts. This expansion of the process will ensure all fund balance accounts regardless of funding source are being reconciled monthly.

Anticipated Completion Date: Short Term – December 31, 2019
Long Term – June 30, 2020

2018-029b – *Short Term:* RIDOT will evaluate it policies and procedures to identify where additional controls can be put in place to ensure accurate identification of accounts payable at fiscal close. RIDOT will also review the processes to find efficiencies and streamline where possible.

Long Term: RIDOT will research the use of estimates with regards to the fiscal close process. This will take time as it will consist of analysis and research.

Anticipated Completion Date: Short Term – October 31, 2019
Long Term – TBD

2018-029c - During FY 19, RIDOT revised our fiscal close policies to ensure clearing accounts would be reevaluated once accrual entries are posted. RIDOT will do one final accrual entry to address clearing accounts should any accruals be posted in the clearing accounts. RIDOT will also consider posting directly to accurate accounts instead of the clearing accounts where possible.

Anticipated Completion Date: Implemented

Contact Person(s): Loren Doyle, Acting Chief Operating Officer/Chief Financial Officer
Department of Transportation
Phone: 401.563.4524

Finding 2018-030 – Corrective Action Plan

2018-030a – RIDOT will create policies, procedures and controls related to the Infrastructure process. A working group that will meet bi-weekly has been established to accomplish this task. The group consists of all groups within Financial Management that play a role in the Infrastructure process to ensure the complete Infrastructure process is documented.

Anticipated Completion Date: June 30, 2019

2018-030b – RIDOT will create policies, procedures and controls related to the Infrastructure process. A working group that will meet bi-weekly has been established to accomplish this task. The group consists of all groups within Financial Management that play a role in the Infrastructure process to ensure the complete Infrastructure process is documented. It is important to document that the reversal of prior year accruals and current accruals were not included as part of the reconciliation process for Infrastructure due to net of reversals from prior year and current accruals being an overall immaterial amount.

Anticipated Completion Date: June 30, 2019

2018-030c – RIDOT will coordinate with DOA Accounts and Control and DOIT to explore this recommendation. This would require revisions to FMS and possibly RIFANS therefore resources and funding would be a decision factor.

Anticipated Completion Date: December 31, 2019

2018-030d - In FY 18, Finance along with Project Management developed a process to enhance the controls over the assignment of project infrastructure codes. The infrastructure code is now identified during the scoping phase of the project by the project managers and scoping team. It has been added as a field on the Project Definition and Scoping Document. The Project Funding Request template was also modified to include the infrastructure code so that it is part of the request for funding. Finance then receives the approved funding authorization with the infrastructure code and inputs the code into the Financial Management System.

Anticipated Completion Date: Implemented

2018-030e – During FY 2019, RIDOT has revised the procedures to implement a process where the project completion dates entered into FMS are compared to the substantial completion forms on a quarterly basis for accuracy by the Administrator of Financial Administration. In addition, a tracking sheet will be maintained by fiscal year to list all projects which the Finals section indicate are substantially complete. This tracking sheet will be used to ensure the substantial completion forms are received from construction.

Anticipated Completion Date: Implemented

2018-030f – RIDOT will improve controls to ensure the accuracy of amounts reclassified from CIP to Infrastructure. The improved controls will be reflected in the procedures.

Anticipated Completion Date: June 30, 2019

2018-030g – RIDOT will review the criteria for impairment of assets and from there develop a policy and a procedure for determining if any of the State's transportation infrastructure assets have been impaired. Finance will coordinate with the necessary sections to develop and implement this policy.

Anticipated Completion Date: December 31, 2019

2018-030h – RIDOT will work develop a policy and a procedure for removing infrastructure assets that have been replaced or taken out of service. RIDOT will work with Accounts and Control to ensure the appropriate amounts are removed.

Anticipated Completion Date: December 31, 2019

Contact Person(s): Loren Doyle, Acting Chief Operating Officer/Chief Financial Officer
Department of Transportation
Phone: 401.563.4524

Finding 2018-031 – Corrective Action Plan

The Employees Retirement System of Rhode Island (ERSRI) and The Office of the General Treasurer are committed to the highest level of transparency in expense reporting, and during FY18 implemented a process that enhances expense reporting. Under the Equity expense reporting methodology, expenses of the indirect nature, which were typically reported only as part of the Net Asset Value, are now fully disclosed. (The prior process only recorded expenses when paid through Capital calls.)

This level of disclosure places ERSRI at the leading edge of public pension transparency efforts. Implementing new processes always comes with challenges, and because many public pension plans do not commit to this level of disclosure, ERSRI and its custodian had to develop new protocols and procedures for their respective investment accounting teams. Invariably, the first year of implementation for any new process affords the opportunity to improve in subsequent years.

It is important to note that the focus of the finding is limited to the financial reporting controls over the recording of investment income and expenses. To be clear, the auditors found the System's financial statements were fairly stated and the auditors' opinion on them is unmodified.

This response discusses controls and establishment of procedures for such control as it relates to the Equity expense reporting methodology.

Prior to the launch of the new reporting methodology ERSRI and BNY management held several meetings to establish criteria and protocols to be used in the process. ERSRI requested that the following sources of information be used to disclose expenses as follows: 1) ILPA statements were the preferred and most detailed method for reporting Expenses and Carry and Expenses and 2) Manager monthly/quarterly statements to be used when ILPA statements unavailable.

These changes had a substantial impact on BNY's processes and began after the start of the fiscal year. Because the process began after the beginning of the fiscal year, items booked under the cash method had to be reversed, and all expenses had to be booked again directly from the statements.

This caused some recording issues and made ERSRI staff review more cumbersome. This also resulted in a delay in recording activity related to expenses which delayed the staff's ability to complete its review of the reports.

In the second year of the Equity reporting methodology both the ERSRI System and BNY are committed to further improving the process, ensuring the timeliness of reporting and simplifying the audit process as detailed below.

Bank of New York – ERSRI staff has had several follow-up discussions with BNY which will enhance their processes and control for FY19 and beyond. Per those discussions BNY has committed to the following:

1. Recording of expenses and expenses will revert to the BNY Private Asset team from a centralized group to improve the speed and accuracy of recording.
2. BNY has established a written procedure for their methodology for recording of expenses and expenses by each individual partnership which will be maintained and updated for any new partnerships.
3. Two custom reports have been established for ease of understanding of timing and recording of expenses, and verification that the NAV is in agreement with each partnership's valuation.

ERSRI – The System has also reviewed its internal procedures and identified the following enhancements:

1. Timely reviews of all activity will be performed by the System ensuring that the reported NAV's are in agreement with the Partnership valuations, and that the posted expenses reflect fairly the systems obligations on a quarterly basis.
2. Multiple ESRSI staff will also review and sign off on the reconciliation of monthly values currently performed by our custodian and consultant.
3. The system will conduct a quarterly review of said processes of the custodian and report to the Treasurer's Chief of Staff for quality assurance purposes.
4. The system will consider enhancing the review process by working with an outside vendor to perform quality control, additional review.

Copies of the referenced procedures and the custom report samples have been provided to the auditor.

Anticipated Completion Date:	The corrective action plan presented by ERSRI, and Bank of New York, have all been implemented for fiscal year 2019. Financial reporting is an evolving process and ERSRI will continue to enhance its commitment to transparency.
Contact Person(s):	Zachary Saul, Chief Financial Officer Employees' Retirement System of Rhode Island Phone: 401.462.7625

Finding 2018-032 – Corrective Action Plan

The OPEB Board will meet with Retirement System staff to discuss ways to accomplish the recommendations listed. It would not be financially feasible for the OPEB system to develop its own independent database to track members, when the Retirement System already has this information.

Anticipated Completion Date:	July 2019
Contact Person(s):	Peter Keenan, Controller DOA, Office of Accounts & Control Phone: 401.222.6408 Thomas Mullaney, State Budget Officer DOA, Office of Management and Budget Phone: 401.222.6300

Finding 2018-033 – Corrective Action Plan

Management agrees and will implement such procedures.

Anticipated Completion Date:	December 31, 2019
Contact Person(s):	Gail LaPoint DOA, Office of Accounts & Control Phone: 401.222.5098

Finding 2018-034 – Corrective Action Plan

The District agrees with the finding. The District also agrees with the recommendation. Management will correct the material weakness by ensuring adequate staffing including training the processes and software involved, appropriate controls related to authorization and review of recorded transactions, and timely recording of transactions and reconciliations.

Anticipated Completion Date:	Ongoing
Contact Person(s):	Keree Simmons, Director of Finance Central Falls School District Phone: 401.727.7700 ext. 2006

Finding 2018-035 – Corrective Action Plan

The District agrees with the finding. The District also agrees with the recommendation. Management will correct the noted significant deficiencies by hiring a third party to complete an inventory of all capital assets. Management will then incorporate this information into the financial software system.

Anticipated Completion Date: Ongoing

Contact Person(s): Keree Simmons, Director of Finance
Central Falls School District
Phone: 401.727.7700 ext. 2006

Finding 2018-036 – Corrective Action Plan

The Authority will fund the Operating Reserve provided there is sufficient cash flow. Given that Authority continues to make timely and complete debt service payments, it would make little sense for the trustee to declare a default for reserve fund noncompliance. In fact, this has been the practical practice over several years as the Authority has failed to maintain adequate reserves due to insufficient State appropriations. If a default was declared, the Authority would have 90 days to cure and would seek a legislative appropriation to remedy the default. Of course, annual appropriations in excess of debt service requirements would assist in building reserves and reaching the requirements.

Anticipated Completion Date: Ongoing

Contact Person(s): James McCarvill, Executive Director
Rhode Island Convention Center Authority
Phone: 401.351.4295

Finding 2018-037 – Corrective Action Plan

The Corporation has implemented the corrective actions as recommended by the auditor. Specifically, the Administrative Assistant now maintains a log of all cash receipts which is submitted to the Executive Director for comparison to the monthly bank statement. In addition, the Executive Director now reviews the monthly bank statements, cash reconciliations, and payroll reports.

Anticipated Completion Date: Ongoing

Contact Person(s): Kimberly Mooers, Executive Director
Rhode Island Health and Educational Building Corporation
Phone: 401.831.3770

Finding 2018-038 – Corrective Action Plan

Medicaid agrees with the recommendations and is working with DoIT, as the shared service agency for information technology, to address this issue.

Anticipated Completion Date: Ongoing

Contact Person(s): Nicole Nelson
Executive Office of Health and Human Services
Phone: 401.462.2127

Finding 2018-039 – Corrective Action Plan

DHS is continuously working with its Cost Allocation Plan (CAP) vendor to improve the Department's implementation of the CAP, including, continuous training to all field staff to ensure correct completion of the random moment time study (RMTS). Most recent all staff training on RMTS occurred 3/19 through 3/21 2019. DHS processes journals on quarterly basis to reflect the results of the revised CAP earning report to RIFANS. As approved by FNS, to ensure timely submission of all reporting, quarterly reports are based on estimates with the agreement that the final reports will be based on actual expenditures. The FFY18 SNAP FINAL report figures were based on the data resulting from the approved CAP Earnings report; all departmental direct and indirect costs, as well as costs matched from other state accounts were reported accordingly in the FNS SF425-778 final report.

Anticipated Completion Date: September 30, 2019

Contact Person(s) Guillermo Uzcategui, Assistant Administrator
Department of Human Services
Phone: 401.462.7260

Finding 2018-040 – Corrective Action Plan

The state is actively working with its vendor to implement all federally required reporting. The FNS-046 reports have been submitted to FNS through FPRS, and the department is now up-to-date.

The status of claims against households report (FNS-209) has been developed and validated with collections data currently stored in the RI Bridges database. The State has already submitted two of the outstanding quarterly reports to FNS and is on track to submit all other outstanding FNS-209 reports by the end of April 2019. Financial management is working to revise and submit all other FNS financial reports in a timely manner.

Anticipated Completion Date: June 30, 2019

Contact Person(s): Iwona Ramian, Deputy Legal Counsel
Department of Human Services
Phone: 401.462.6410

Finding 2018-041 – Corrective Action Plan

The State continues to improve the accuracy and timeliness of benefit determinations for SNAP beneficiaries. Significant improvements have been made to the system to ensure that benefits are determined accurately and within federal regulations. Corrective actions have been put in place to ensure that cases are properly noticed and closed at the end of certification periods when the recertification process has not been complete. Cases are also terminated when households do not return requested documentation or miss their required interview. Staff has been assigned to independently review cases to ensure accuracy of determinations and issuances. Any system defects identified through this review are properly tracked and scoped for system fix releases, while errors due to staff processing are included in training materials and staff development seminars.

Core key performance indicators (KPIs) have been developed and are being tracked to understand our system progress. The goal of the eligibility KPI is to meet or exceed 95% accuracy in eligibility and benefit payment. Since October, the KPI has been holding in the low 90% range. Tickets have been filed to address the issues identified and fixes with the largest KPI impact have been prioritized for April and May. A second KPI has been developed to measure the timeliness of the SNAP daily benefit issuance batch, monthly batch and issuance triggers (user and mass update). The goal of this KPI is to meet 95% timeliness. This measurement has been met/exceeded.

Daily reports of authorizations done by the system and issuances placed on EBT cards are reviewed by staff and discrepancies between the two system are tracked and promptly addressed. Controls have been put in place to ensure that benefits are properly issued and cases accurately processed.

Anticipated Completion Date: September 30, 2019

Contact Person(s): Bethany Caputo, SNAP Administrator
Department of Human Services
Phone: 401.415.8432

Finding 2018-042 – Corrective Action Plan

_2018-042a_ – The department continues to work with its systems integrator to finalize the programming necessary for financial management to produce a reliable reconciliation. Currently, staff is provided with a daily report (EBT-003 report) of all authorizations done by the system and all issuances put on EBT cards. This report displays any inconsistencies between the two systems, which staff promptly research and address. The systems integrator is also working closely with FIS to ensure that appropriate files are being shared between the two systems daily in order to produce a reliable reconciliation and make it available to the EBT administrator and financial management staff. We expect the required updates to the EBT-003 report to be completed by the department's RI Bridges vendor by June.

Anticipated Completion Date: June 30, 2019

Contact Person(s): Jennifer Pate, Assistant Director, Financial Management
Department of Human Services
Phone: 401.462.1586

_2018-042b_ – The DoIT Chief Information Security Officer will review the Service Organization Control (SOC) reports for FIS and Conduent in order to evaluate IT security monitoring over the external components of the EBT systems.

Anticipated Completion Date: June 30, 2019

Contact Person(s): Bethany Caputo, SNAP Program Administrator
Department of Human Services
Phone: 401.415.8432

Finding 2018-043 – Corrective Action Plan

RIDE hired three full-time contractors in September 2018 to accelerate the on-site reviews and get back on the required 3-year schedule. The Child Nutrition Program (CNP) Office at RIDE has created a detailed tracking sheet identifying dates of reviews and benchmarks until conclusion of each review. The review-tracking spreadsheet will be reviewed by the CNP Coordinator monthly. The Coordinator will review the progress of reviews quarterly with the Associate Director for Statewide Efficiencies. Finally, the USDA has created a waiver process for states to apply for a 4-year or 5-year cycle and RIDE will apply for that flexibility.

Anticipated Completion Date: For the three-year period of FY2018 – FY2020, RIDE will have completed 48 reviews by June 30, 2019, 17 more by December 31, 2019, and all 83 by June 30, 2020.

Contact Person(s): Mark Dunham, Director
Department of Education
Phone: 401.222.4647

Finding 2018-044 – Corrective Action Plan

The Department has continued with the on-line ordering process developed by the USDA and it has moved forward on replacing the Oracle inventory system. A new system was reviewed in concert with the Division of Information Technology and a new system was awarded to replace the Oracle system. The Department is in the process of setting up the system and preliminary testing of preliminary functions has begun.

Anticipated Completion Date: September 2019

Contact Person(s): Joanne Hill, Associate Director/Chief Financial Officer
Department of Corrections
Phone: 401.462.2617

Finding 2018-045 – Corrective Action Plan

HUD Form 60002 is typically completed in the federal SPEARS reporting system concurrent with CAPER submission. However, due to staff turnover at the time of PY2018 CAPER submission, no RIHousing HOME program staff had access to SPEARS. Since that time, staff has been working to gain access and has been working with the HUD Boston Field Office on this issue. Going forward, RIHousing will ensure multiple staff have access to the system and reporting due dates will be included in an automated tickler system to ensure HUD Form 60002 is filed in a timely manner.

Anticipated Completion Date: April 30, 2019

Contact Person(s): Kara Lachapelle, Chief Financial Officer
Rhode Island Mortgage and Housing Finance Corporation
Phone: 401.457.1170

Finding 2018-046 – Corrective Action Plan

The Department will amend the fiscal 2018 Equitable Sharing Agreement and Certification (ESAC) report to reflect expenditures on a cash basis in accordance with program guidelines and will follow the State's newly adopted procedures for preparing the annual ESAC report going forward.

Anticipated Completion Date: April 30, 2019

Contact Person(s): Mary Beth Fusco, Business Office Manager
Office of the Attorney General
Phone: 401.274.4400

Finding 2018-047 – Corrective Action Plan

UI Administration staff have been actively working with IT for several months to complete programming to accommodate the 15% Penalty on all Fraud overpayments. Due to the complex nature of the current AS400 overpayment system and the need to populate data from that system to the UI claims system, building requirements to ensure accurate processing of the penalty has been time-consuming. This project has been escalated in IT priorities, and we expect to implement during the first quarter of 2020. Programming work on Non-Relief of Charges Due to Employer Fault will begin immediately following the completion of the 15% penalty work.

Anticipated Completion Date: March 31, 2020

Contact Person(s): Kathy Catanzaro, Administrator
Department of Labor and Training
Phone: 401.462.8405

Finding 2018-048 – Corrective Action Plan

The Workforce Development Services Unit (WDS) is researching the issue, will determine the cause and develop a resolution/appropriate corrective action plan, as required.

Anticipated Completion Date: December 31, 2019

Contact Person(s): Maria Dawson, Chief of Operations
Department of Labor and Training
Phone: 401.462.8385

Finding 2018-049 – Corrective Action Plan

2018-049a – The PURK is a constantly evolving document that is currently being revised to reflect updated policies and procedure. A group of RIDOT Construction, Materials and PM staff as well as representation from FHWA division office meet regularly to review and revise PURK section by section. As the revisions will require FHWA approval, the revisions should be completed and distributed by July 1, 2019. The revised PURK will also incorporate a procedure for future revisions which may be needed do to future specification and policy changes.

Anticipated Completion Date: August 31, 2019

Contact Person(s): Brian Ferguson, Manager of Construction Management
Department of Transportation
Phone: 401.563.4097

2018-049b – It is our understanding that the responsibility is shared between Materials, Construction and Project Management. With the Department's reorganization, these sections are now unified under the supervision of the Administrator of Project Management. Furthermore, Materials and Construction are now unified under the supervision of the Deputy Chief Engineer of Construction and Materials. RIDOT Construction, Materials, Project Management and FHWA meet monthly to discuss issues and policies related to construction operations, the quality assurance program and design. RIDOT believes this has been accomplished.

Anticipated Completion Date: Implemented

Contact Person(s): Brian Ferguson, Manager of Construction Management
Department of Transportation
Phone: 401.563.4097

2018-049c – All materials test data is available on the RIDOT network in PDF format to all resident engineers on a project specific basis since 2016 and can be accessed by all resident engineers through the VPN. RIDOT's Materials section has also been coordinating with the MIS section to develop an electronic procedure for distributing test results. The transference of materials test data will significantly improve with the Department's decision to implement the usage of an electronic project documentation system, SharePoint. The Department continues investigate new technologies as they become available to improve all aspects of project delivery and documentation.

Anticipated Completion Date: Implemented, but will continue to improve

Contact Person(s): Jose Lima, Manager of Materials and Quality Assurance
Department of Transportation
Phone: 401.563.4113

2018-049d – Implemented in 2016, Construction Resident Engineers provide RIC numbers and material item numbers on all email inspection requests sent to the Materials mail box. The numbers are transferred to all subsequent paperwork generated in materials production plants and at project sites. Test reports related to project onsite and laboratory testing carry the RIC and Item numbers throughout the sampling, testing and reporting process. A uniform naming convention was added to the file management system on May 24, 2018.

Anticipated Completion Date: Implemented

Contact Person(s): Jose Lima, Manager of Materials and Quality Assurance
Department of Transportation
Phone: 401.563.4113

2018-049e – Construction is implementing the use of a form to be included with the submission of a ROC with new items of work that will address the need for testing. The new "Request for New Item Sampling and Testing Schedule" form will be incorporated into PURK revisions that are forthcoming.

Anticipated Completion Date: August 31, 2019

Contact Person(s): Brian Ferguson, Manager of Construction Management
Department of Transportation
Phone: 401.563.4097

2018-049f – Throughout the year and specifically during the Winter months RIDOT reviews items related to the Materials Quality Assurance Program (Acceptance Testing, Process Control and Independent Assurance). We also continuously review our documentation filing and retrieval system to monitor for errors and improve wherever possible. It is recommended that the Finals section include the routine review of all project specific Materials test books to assure that minimum MST requirements are being met as part of their scheduled project reviews.

Anticipated Completion Date: Implemented

Contact Person(s): Jose Lima, Manager of Materials and Quality Assurance
Department of Transportation
Phone: 401.563.4113

Finding 2018-050 – Corrective Action Plan

RIDOT is in the end stages of developing a revised Value Engineering policy in accordance with 23 CFR 627. It is expected to be submitted to FHWA by May 15, 2019 for review and approval. The anticipated review period by FHWA is three weeks. RIDOT will then respond to any comments by FHWA and submit the final policy within two weeks. RIDOT anticipates final acceptance by FHWA shortly after final submission.

Anticipated Completion Date: July 31, 2019

Contact Person(s): David Fish, Administrator for Project Management
Department of Transportation
Phone: 401.563.4100

Finding 2018-051 – Corrective Action Plan

All service billings (JARC, Rline, Tlink, Flex, NonUrban) will be reviewed and approved in Finance after receiving from Planning for services days prior to preparation for reimbursement.

Anticipated Completion Date: January 4, 2019

Contact Person(s): Tracie Dugas, Grant Specialist
Rhode Island Public Transit Authority
Phone: 401.784.9500 ext. 1136

Finding 2018-052 – Corrective Action Plan

RIPTA revised (FTA) Grant Administration Procedure March 2, 2018 to require Grants Specialist or his/her designee to put approving initials on Capital Requisition form instead of Executive Director of Finance and Budget. This changed routing of form to ensure the approving initials of Executive Director of Planning or his/her designee are obtained prior to packet submittal to Procurement Department and ultimately purchase order issuance

Anticipated Completion Date: Completed March 2018

Contact Person(s): Tracie Dugas, Grant Specialist
Rhode Island Public Transit Authority
Phone: 401.784.9500 ext. 1136

Finding 2018-053 – Corrective Action Plan

It was RIPTA's understanding that Sungard Software merely changed their name to Superion, LLC. A sole source procurement was done in July 2012. Typically, a new sole source is not done when a company changes name. Documentation will be placed in the sole source file when companies change name. The SAM status of sole source procurements will be checked moving forward effective with the next sole source procurement.

Anticipated Completion Date: Immediate

Contact Person(s): Michael McGrane, Contracts Manager
Rhode Island Public Transit Authority
Phone: 401.784.9500 ext. 1214

Finding 2018-054 – Corrective Action Plan

The SAM status of sole source procurements will be checked moving forward with the next sole source procurement.

Anticipated Completion Date: Immediate

Contact Person(s): Michael McGrane, Contracts Manager
Rhode Island Public Transit Authority
Phone: 401.784.9500 ext. 1214

Finding 2018-055 – Corrective Action Plan

The Director of Accounting now reviews the financial reports and verifies all information on the report ties to the supporting documentation and signs off on the document verifying that it has been reviewed.

Anticipated Completion Date: Completed October 2018

Contact Person(s): Paul Dilorio, Director of Accounting
Rhode Island Public Transit Authority
Phone: 401.784.9500 ext. 1123

Finding 2018-056 – Corrective Action Plan

The State and the Systems Integrator have a plan in place to ensure that full functionality for the TANF program is delivered. Over the past year, enhancements have been made to the system to reduce missing documentation, including enhancements to our scanning procedures. New functionality to correct sanctions was completed in March 2019. Document verification and use of available resources like SSA matching and the Work Number are available for the field staff to use. Additional training for the field staff is being conducted to ensure that both documentation and resources are utilized for TANF.

Anticipated Completion Date: June 30, 2019

Contact Person(s): Kimberly Rauch, RIW Administrator
Department of Human Services
Phone: 401.462.0138

Finding 2018-057 – Corrective Action Plan

2018-057a – DHS has implemented cost allocation processes that are considered national best practice. DHS is continuously working with its Cost Allocation Plan (CAP) vendor to improve the Department's implementation of the CAP, including continuous training to all field staff to ensure correct completion of the random moment time study (RMTS). The most recent all staff training on RMTS occurred 3/19 through 3/21 2019. DHS processes journals on quarterly basis to reflect the results of the revised CAP earning report to RIFANS. The department will adjust the federal financial reports to align with the results of the cost allocation plan.

2018-057b – The state and systems integrator continue to make system and staffing improvements to ensure reliability of Bridges data. Additional training for the field staff is being conducted to enhance data accuracy.

2018-057c – DHS financial management is now preparing monthly reconciliations between the EBT system, RI Bridges and RIFANS monthly.

Anticipated Completion Date: June 30, 2019

Contact Person: Janice Cataldo, Chief Financial Officer
Department of Human Services
Phone: 401.462-3246

Finding 2018-058 – Corrective Action Plan

The State and Systems Integrator continue to make system & staffing improvements to ensure TANF regulations are followed. A new report was implemented in July 2018, that provides DHS workers with information about cases that are approaching the end of their plan. Additionally, new RI Works / TANF training for staff was implemented in SFY19, including training for both Eligibility Technicians and Employment & Career Advisors (ECAs). Clients plans were adjusted to match eligibility periods starting in March of 2018. These plans will match the recertification time period, so that a client will not be without a plan, and all plans will be revisited at the time of recertification. Lastly, the number of ECAs statewide was nearly doubled in SFY19, the current staffing levels corrected the previous staff turnover and shortages from SFY18.

Anticipated Completion Date: September 30, 2018

Contact Person: Kimberly Rauch, RIW Administrator
Department of Human Services
Phone: 401.462.0138

Finding 2018-059 – Corrective Action Plan

The State and Systems Integrator teams are working to operationalize SWICA for RIWorks and anticipate its full implementation during SFY 2019. The immigration status information maintained by the INS interfaces was in production in SFY 2018. and most recently updated during a March release to include electronic submission for level 3 of the verification of legal presence process (G-845) from a manual process. The IRS Unearned and IRS by SSA interfaces are being prioritized for implementation during SFY 2019. Additionally, RI Works staff have had access to "The Work Number" throughout the year for the purpose of additional wage verification.

Anticipated Completion Date: September 30, 2019

Contact Person: Kimberly Rauch, RIW Administrator
Department of Human Services
Phone: 401.462.0138

Finding 2018-060 – Corrective Action Plan

DHS monitors compliance with transfer limits each time funds are transferred. Additional procedures have been established and staff training has been implemented to ensure expenditures align properly with receipt of federal revenue.

Anticipated Completion Date: June 30, 2019

Contact Person: Eileen Asselin, Assistant Director, Financial Management
Department of Human Services
Phone: 401.462.6884

Finding 2018-061 – Corrective Action Plan

DHS is eliminating all advances by separating billing for administration and program operations costs, which will be billed monthly with General Ledger backup, and fuel assistance costs that will be invoiced up to twice weekly (the cash advances had been used to ensure subrecipients were able to pay fuel vendors to ensure deliveries to LIHEAP participants). Additionally, the administrative time period for the program is being initiated earlier in the year (August 1) so that the subrecipients will have more lead time to invoice for fuel assistance and pay fuel vendors on behalf of clients.

Uniform invoicing will be generated in the Hancock software system that is used to administer LIHEAP. The invoices will include the cumulative award and expenditures in FFY 2020.
The backup for fuel assistance invoices is redefined: i.e., a check run vendor summary and a client list per vendor, all matched in the Hancock system to the invoices (this was remedied in late 2018).

Anticipated Completion Date: October 2019

Contact Person(s): Frederick Sneesby, Administrator
Department of Human Services
Phone: 401.462.1669

Finding 2018-062 – Corrective Action Plan

DHS is returning to one-year contracts to ensure better control over the proper obligation and earmarking of federal awards. DHS has established collaboration between fiscal and program personnel so that data is regularly shared and has identified reporting responsibilities between fiscal and program staff. Additionally, all documentation for federal reports are being saved by program and fiscal staff.

Anticipated Completion Date: June 2019

Contact Person(s): Frederick Sneesby, Administrator
Department of Human Services
Phone: 401.462.1669

Finding 2018-063 – Corrective Action Plan

DHS will identify the subrecipients at which Single Audit Reports did not cover LIHEAP to target those agencies for fiscal monitoring. Regular on-site monitoring will be restored now that the program is staffed again with consideration to alternate annual monitoring to 2 Community Action Agencies per year.

Anticipated Completion Date: December 31, 2019

Contact Person(s): Frederick Sneesby, Administrator
Department of Human Services
Phone: 401.462.1669

Finding 2018-064 – Corrective Action Plan

Beginning November 2018, the Department implemented an interim business process that manually dis-enrolls ineligible children from the system monthly. A system fix to tie enrollment to eligibility is slated for the June 2019 RIBridges release and will automate the dis-enrollment process for providers to ensure compliance. Additionally, the Department manually notices providers when a child is no longer eligible. DHS has implemented trainings for all staff on rules and policies, conducts weekly incident meetings, weekly problem management meetings, and runs biweekly system reports that flag ongoing errors for immediate solutioning. Financial Management conducts pre-payroll batch run analysis to flag eligibility and enrollment issues, and to build case reviews into the overall child care assistance program.

Anticipated Completion Date: June 30, 2019

Contact Person: Eileen Asselin, Assistant Director, Financial Management
Department of Human Services
Phone: 401.462.6884

Finding 2018-065 – Corrective Action Plan

The State acknowledges the findings and will be working closely with the RIBridges system developer for course correction via the RIBridges governance process. Having prior knowledge of the potential for incorrect CHIP determinations, the State has implemented short-term measures to correctly identify, report, and claim CHIP appropriately. This is achieved through backend reporting adjustments. We agree with the recommendation for data analysis on CHIP claiming 2018-065b) and will explore such analysis.

In other cases, the State has been aware of these findings and is taking steps to address them. Regarding post-partum coverage, this is an area that the State will address under the normal RIBridges governance processes. Regarding eligibility redeterminations, the State has worked in calendar year 2018 to fully implement renewals, along with a redistribution plan approved by CMS, to ensure that all cases are re-determined promptly. We intend that all renewals will be complete by June 2020. At present, 98 percent of Medicaid renewals are sent timely and accurately through RIBridges. Finally, Post-Eligibility Verification is fully operational as of March 2019, which includes fixing performance issues in November 2018. Prior to this fix, PEV was run in a lower environment; however, it is now fully integrated with the RIBridges system. As such, the State believes that system programming is largely compliant and in line with recommendation 2018-065c. Medicaid continues to work with its DHS partners to ensure that all PEV and renewal tasks are processed timely for full compliance.

Anticipated Completion Date: Ongoing

Contact Person(s): Nicole Nelson
Executive Office of Health and Human Services
Phone: 401.462.2127

Finding 2018-066 – Corrective Action Plan

The findings herein focus on the need to maintain information for the verification of eligibility and the periodic review of recipient Medicaid eligibility, and the State agrees with the findings.

- Regarding access to documentation, the State continues to work with the DDI vendor to ensure that documentation is up to date and accessible. More training is required to ensure access to appropriate documentation, instead of dedicating resources to develop new modules in RIBridges that could otherwise be used to fix eligibility defects or improve customer service.
- The State agrees that issues related to individuals with multiple cases are problematic, and the continued management of such cases is likely to be part of the business process for the lifetime of the system given the integrated nature of the system. The State tracks data on the number of cases needing to be combined and in 2018 instituted new MCI clearance functionality to guide caseworkers to connect individuals appropriately to these cases.
- The findings note that eligibility should have been terminated based on case documentation during the time of the audit. The problems included reason codes and data point confirmation across approximately 15 defects. This required the use of an interim business process that may have held some terminations. The State and DDI vendor expect all terminations will be effectuated properly by August 2019.

- The findings also note that deficiencies prevented termination at the date of death. Since this audit, the State and Deloitte have implemented new processes for taking information from other sources and automatically terminating eligibility if an individual is deceased. The exact process depends on the program type, but if the State has information from two sources that an individual is deceased that individual will be auto-closed in RIBridges and the date of death will be sent to the MMIS. If there is only a match from one data source, we will send a request for additional information to the household. In the event there is no response from the household, or the mail is returned, the case will be terminated. MAGI and QHP death terminations are also accomplished through the PEV and renewal process. As part of implementing this new functionality, to ensure that that the State is caught up, we have auto-terminated 3,019 cases across programs with 387 cases pending additional documentation. The State believes that when this cleanup is complete, our new processes and technology will keep us up to date.
- The findings reference that redeterminations are required annually and note improvements in this area from prior years. The State has worked in calendar year 2018 to fully implement renewals, along with a redistribution plan approved by CMS to ensure that all cases are redetermined promptly. At present, 98 percent of Medicaid renewals are sent timely and accurately through RIBridges. We have also fixed approximately five distinct defects, including improving the renewal form and ensuring that renewal batches are properly executed. Because of the CMS approved redistribution plan, the State intends to be fully timely with renewal generation for all cases in RIBridges by June 2020. We anticipate all redistribution will be complete by June 2019.
- The findings note challenges with utilization of SWICA data to identify income discrepancies, and the potential for deductions of income reported by applicants. The State intends to review the cases found and further understand the Auditor General's findings. The State believes that PEV and SWICA have been implemented properly but will use these findings as a final check. Improving the worker portal to highlight potential caseworker error and user controls on deductions will also be reviewed by the RI Bridges team.

Anticipated Completion Date: Ongoing

Contact Person(s): Nicole Nelson
Executive Office of Health and Human Services
Phone: 401.462.2127

Finding 2018-067 – Corrective Action Plan

All MEQC and Pilot findings related to RIBridges defects have been or are scheduled to be resolved. As noted, CMS has accepted the corrective actions filed in Pilot 5. The State will address additional ways to make documentation available for auditors and MEQC monitors without additional system changes.

Anticipated Completion Date: Ongoing

Contact Person(s): Ben Shaffer
Executive Office of Health and Human Services
Phone: 401.430.0849

Finding 2018-068 – Corrective Action Plan

The State restarted Medicaid renewals and has an approved redistribution plan with CMS to bring the State into full compliance. The report notes improvement during FY 2018. EOHHS believes that further improvement will be shown in FY 2019 and FY 2020 as all renewals are generated as part of the redistribution plan. Medicaid continues to work with its partners at DHS to process MAGI and non-MAGI applications in a timely manner. We have seen a reduction in the overall new applications backlogs since this Single Audit. The State continues to work with the DDI Vendor to ensure that the worker inbox, implemented in August 2018, is used properly and completely for the direction of workflow, and is properly disposing of worked tasks to provide appropriate accounting. Furthermore, efficiency improvements, through both technology enhancements, worker management, and worker training, are also necessary to improve MAGI and non-MAGI processing of new applications and other eligibility tasks.

Anticipated Completion Date: Ongoing

Contact Person(s): Ben Shaffer
Executive Office of Health and Human Services
Phone: 401.430.0849

Finding 2018-069 – Corrective Action Plan

EOHHS concurs with this finding and arrangements are being made to return the federal money noted in this report by June 30, 2019.

Anticipated Completion Date: June 30, 2019

Contact Person: Bruce McIntyre
Executive Office of Health and Human Services
Phone: 401.462.0613

Finding 2018-070 – Corrective Action Plan

Inconsistency between RIB and MMIS has been a significant focus of our efforts with Deloitte and DXC, our MMIS vendor. The findings captured in this report state that 1,263 individuals were eligible in RIBridges but not in MMIS. Because of the State's efforts, that number has decreased by 79 percent since FY 18 to 261. The number of individuals in MMIS but not in RIBridges remains higher than what the State would like. Much of the discrepancy was caused by interim business processes that are slated to end the summer of 2019. This includes the use of an interim business process for terminations referenced in the corrective action plan for the finding on controls over Medicaid eligibility. The total number of discrepancies is three percent of total Medicaid enrollment.

Anticipated Completion Date: Ongoing

Contact Person(s): Nicole Nelson
Executive Office of Health and Human Services
Phone: 401.462.2127

Finding 2018-071 – Corrective Action Plan

_2018-071a_ – EOHHS has identified the following areas as critical to our continued improvements in validating and settling managed-care expenditures within contract periods: improving the establishment of eligibility for newborns, stopping capitation for deceased individuals, preventing incorrect capitation rates caused by care level inconsistencies, improving timeliness of eligibility determinations and ensuring appropriate transfers of data to MMIS. The State and its vendors continue to work through remaining technological challenges on these issues, and DHS and EOHHS continue to improve LTSS application timeliness.

As each of these issues is addressed, manual reconciliations will be needed to resolve contract periods that have already been settled, as noted in the audit finding; however, once the issues outlined above are addressed (as outlined in their respective corrective action plans herein), manual reconciliations will not be needed going forward. In the meantime, to ensure the accuracy of these manual reconciliations, EOHHS has a team of subject matter experts that independently review and discuss the analysis before any financial transaction occurs. This team includes two financial reviewers, one eligibility systems expert, and one managed care oversight expert.

_2018-071b_ – Since the time period covered by this audit (i.e., FY 2018), EOHHS has improved the adjudication of Managed Care Organizations' encounter data and is now providing a more complete determination of medical expenditures incurred during the managed care contract period. For example, 98 percent of encounter claims are now submitted and accepted by MMIS within 75 days of the claim being paid per the MCO contracts. If encounters are still outstanding after 75 days of being paid, MCOs are placed on a corrective action plan (CAP) or are subject to a financial penalty. EOHHS continuously monitors this via monthly reporting. MCOs' contracts state that "For each Contract Period, risk/gain sharing will be based only on claims paid experience." In practice, when settling a contract, before making a risk share payment or gain share recoupment, EOHHS compares the health plans' reported financials to claims paid by the health plans and accepted by MMIS. Before taking financial action, EOHHS ensures that these values are within one percent. EOHHS plans to move to full-risk contracts, which will eliminate the need for these manual reconciliations to contract settlements as there will no longer be any risk share or gain share payments.

_2018-071c_ – EOHHS's contracts with the MCOs mandate that the MCOs require independent auditors to comment in their annual financial statements on the accuracy of balance sheet activities and the contractual financial statements that the MCOs have with the State. The feasibility and expense of independent auditor services for areas of MCO contracting with the State not subject to systematic review under the MCOs' mandatory external audit program will be assessed. Additionally, EOHHS will amend contract language to state that EOHHS (or its designees) will conduct no less than once every three (3) years, with reasonable notice, audit functions necessary to verify proper invoicing by the Contractor for provision of services, proper payments by EOHHS to the Contractor, and proper identification of third-party liability in accordance with this contract. The State audit of encounter data will include, at a minimum:

- Development of a data quality test plan;
- Verification of the integrity of the MCO encounter data files;
- Generation and review of MCO analytic reports; and,
- Comparison of findings to State standards.

Failure to meet encounter data submission requirements and violations can result in sanctions, including the suspension of enrollment, the transfer of current enrollees to another MCO, or liquidated damages (financial penalties).

Anticipated Completion Date: Ongoing

Contact Person(s): Katie Alijewicz, Deputy Medicaid Program Director, Finance
Executive Office of Health and Human Services
Phone: 401.462.0136

Finding 2018-072 – Corrective Action Plan

2018-072a – EOHHS is committed to aligning the timing of when expenditures are recorded in the State's accounting system (i.e. RIFANS), drawn for federal reimbursement, and reported on the CMS-64. Complete synchronization of expenses posted in RIFANS and reported in the CMS-64 is challenging because the reconciliation process occurs after all expenditures have posted in RIFANS each quarter. Timing will continue to be an issue and is the major reason for reconciliation variances. All administrative cost reconciliations and any resulting adjustments are based on RIFANS postings versus the results of the Cost Allocation Plan (CAP) analysis and output. Any needed adjustment is corrected and reflected in RIFANS the month following the end of each quarter. EOHHS will continue to evaluate additional enhancements for aligning RIFANS to MMIS and to the CMS-64 reports.

Anticipated Completion Date: Ongoing

2018-072b – To minimize adjustments and facilitate the reconciliation process, EOHHS has: 1) Within the last year, changed employee payroll funding allocations within the State's payroll system to better reflect and mirror its CAP results (most administrative adjustments are payroll related); 2) More closely monitored expenditures every month to see if any adjustment or correction can be done sooner within the quarter; and 3) Continued to work closely with its sister agencies (BHDDH, DCF, DHS, and DOH) on timely reconciliation and reporting to EOHHS of their administrative data.

Anticipated Completion Date: Ongoing

Contact Person(s): Corsino Delgado, Associate Director, Financial Management
Executive Office of Health and Human Services
Phone: 401.462.2517

Finding 2018-073 – Corrective Action Plan

EOHHS has reassessed federal requirements for SUR programs to ensure compliance. EOHHS has drafted a State Plan Amendment to CMS to properly reflect the State's current practices.

Currently, the State has contractual requirements with DXC for the operation of the State's SUR program. Specifically, the vendor creates a 50-case review (except during focused audits with approval from EOHHS), provides monthly EOBs by provider type, and initiates and thoroughly investigates tips and targeted queries. All cases are tracked in the SUR Case Tracker so all case files are readily available. The vendor must review a minimum of 15 months of claims for each standard recipient or provider case under investigation, with the ability to retrieve claims data back to 1994. SUR makes recommendations to the Office of Program Integrity to adjust or recoup aberrant claims, offer provider education, and recommend referral of cases to the Medicaid Fraud Control Unit (MFCU), where a credible allegation of fraud exists.

Anticipated Completion Date: June 30, 2020

Contact Person(s): Bruce McIntyre
Executive Office of Health and Human Services
Phone: 401.462.0613

Finding 2018-074 – Corrective Action Plan

The appropriate Oracle cash resources report is now exclusively used (rather than the web-based report). Going forward, the report will be reviewed by both BHDDH's new team lead of the Fiscal Compliance Unit and the CFO on a monthly basis.

Anticipated Completion Date: Completed as of March 2019

Contact Person(s): Carmela Corte, Chief Financial Officer
Department of Behavioral Health, Development Disabilities and Hospitals
Phone: 401.462.1343

Finding 2018-075 – Corrective Action Plan

RIFANS supporting documentation for program expenditures reported on the federal financial reports will be maintained. The reports will be reviewed and approved before submission by both BHDDH's new team lead of the Fiscal Compliance Unit and the CFO.

Anticipated Completion Date: Completed as of March 2019

Contact Person(s): Carmela Corte, Chief Financial Officer
Department of Behavioral Health, Development Disabilities and Hospitals
Phone: 401.462.1343

Finding 2018-076 – Corrective Action Plan

BHDDH will maintain adequate supporting documentation for meeting the MOE requirements that is properly supported by RIFANS. This MOE submission will be approved by both BHDDH's new team lead of the Fiscal Compliance Unit and the CFO.

Anticipated Completion Date: June 30, 2019

Contact Person(s): Carmela Corte, Chief Financial Officer
Department of Behavioral Health, Development Disabilities and Hospitals
Phone: 401.462.1343

Finding 2018-077 – Corrective Action Plan

This involves a credit for a DCYF-EOHHS cost which was incorrectly charged to the Substance Abuse Block grant. A journal will be processed to correct this.

Anticipated Completion Date: June 30, 2019

Contact Person(s): Carmela Corte, Chief Financial Officer
Department of Behavioral Health, Development Disabilities and Hospitals
Phone: 401.462.1343

Finding 2018-078 – Corrective Action Plan

BHDDH will institute policies and procedures to standardize and provide consistency for subrecipient monitoring. A supervisor's sign-off on the monitoring tool will also be required. Increased oversight will ensure that any material issues identified during the monitoring process will be communicated and addressed. BHDDH will also develop policies and procedures regarding the documentation required to support requests for reimbursement. Additionally, BHDDH will develop a checklist requiring supervisory sign off. A journal has been completed in FY 2019 to address the questioned costs. Moreover, BHDDH will implement more thorough documentation requirements for contract amendments. Lastly, the correct natural account will be utilized moving forward for all subrecipient expenditures. Monitoring will occur during BHDDH's annual review of RIFANS expenditures at year end.

Anticipated Completion Date: June 30, 2019

Contact Person(s): Carmela Corte, Chief Financial Officer
Department of Behavioral Health, Development Disabilities and Hospitals
Phone: 401.462.1343

Summary Schedule of Prior Audit Findings

(prepared by the State's management)

Summary Schedule of Prior Audit Findings
Table of Prior Findings by Federal Program

Program Title	CFDA Number	Findings Included in Previous Single Audit Reports
Financial Statements	N/A	17-001, 17-002, 17-003, 17-004, 17-005, 17-006, 17-007, 17-008, 17-009, 17-010, 17-011, 17-012, 17-013, 17-014, 17-015, 17-016, 17-017, 17-018 17-019, 17-020, 17-021, 17-022, 17-023, 17-024, 17-025, 17-026, 17-027, 17-028, 17-029, 17-030, 17-031, 17-032, 17-033, 17-034, 17-035, 17-036
Supplemental Nutrition Assistance Program (SNAP) Cluster:		
Supplemental Nutrition Assistance Program (SNAP)	10.551	17-038, 17-039, 17-040, 17-041, 17-042, 17-043
State Administrative Matching Grants for SNAP	10.561	
Child Nutrition Cluster:		
School Breakfast Program	10.553	15-028
National School Lunch Program	10.555	
Special Milk Program for Children	10.556	
Summer Food Service Program for Children	10.559	
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	17-037
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	17-044, 17-045, 17-046
Equitable Sharing Program	16.922	17-047
Unemployment Insurance	17.225	17-048, 17-049, 17-050
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	17-051, 17-052, 17-053, 17-054, 17-055
Recreational Trails	20.219	
Grants to States for Construction of State Home Facilities	64.005	17-056
Student Financial Assistance Cluster:		
Federal Supplemental Education Opportunity Grants	84.007	17-057, 17-058, 17-059, 17-060
Federal Work-Study Program	84.033	
Federal Perkins Loan Program – Federal Capital Contributions	84.038	
Federal Pell Grant Program	84.063	
Federal Direct Student Loans	84.268	
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	
Nursing Student Loans	93.364	
TANF Cluster:		
Temporary Assistance for Needy Families	93.558	17-038, 17-039, 17-064,17-065, 17-066, 17-067
Low-Income Home Energy Assistance Program	93.568	17-061, 17-062, 17-063
CCDF Cluster:		
Child Care and Development Block Grant	93.575	17-038, 17-039, 17-068, 17-069
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	

Summary Schedule of Prior Audit Findings
Table of Prior Findings by Federal Program

Program Title	CFDA Number	Findings Included in Previous Single Audit Reports
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke	93.757	17-037
Children's Health Insurance Program	93.767	15-061, 17-038, 17-039, 17-070, 17-071, 17-072, 17-075, 17-076
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	15-061, 15-072, 16-071, 17-038, 17-039, 17-070, 17-071, 17-072, 17-073, 17-074, 17-075, 17-076, 17-077, 17-078, 17-079
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777	
Medical Assistance Program	93.778	

Finding 2015-028 – CFDA 10.553; 10.555; 10.556; 10.559 *(Reported Initially in Finding 2013-030)*

The Department of Corrections (DOC), which has responsibility for the state warehouse used to store and distribute USDA-Donated Foods, needs to improve accountability to ensure that it complies with federal regulations governing the receipt, distribution and inventory of these commodities.

2015-028 Improve the inventory system used to account for USDA-Donated Foods to ensure compliance with federal regulations.

Status: *Partially Implemented. See finding 2018-044 for current year update and recommendation(s).*

Finding 2015-061 – CFDA 93.767; 93.778

A reconciliation by EOHHS and its contractors of individuals reported as Medicaid eligible in the MMIS compared to those eligible in UHIP detected that approximately 1,900 individuals had been deemed Medicaid eligible when in fact they were eligible to purchase health insurance through the State's Health Exchange. Preliminary research suggests a UHIP coding defect caused the dual classification; however, further investigation is required to determine the actual cause, impact on Medicaid eligibility, and amount of resulting ineligible program costs.

2015-061a Require the UHIP contractor to determine the exact cause and timing of this issue to ensure that all potentially impacted cases have been identified.

2015-061d Recoup all claims and capitation payments made to providers and insurers for ineligible individuals and credit the federal grantor for its share of ineligible costs.

Status: *No longer valid. The previous system issue was resolved, and CMS continues to work with the State regarding UHIP implementation issues. Questioned costs relating to this issue were undetermined at the time of the finding and no quantification was subsequently performed by EOHHS or its contractor.*

Finding 2015-072 – CFDA 93.778 *(Reported Initially in Finding 2013-071)*

Program overpayments must be credited to the federal government within one year of discovery regardless of whether the State has recovered the overpayment from the provider (Federal regulation 42 CFR 433.312). We identified program overpayments for which the federal share had not been credited to the federal grantor.

2015-072 Reimburse the federal government for program overpayments within the timeframe mandated by federal regulations.

Status: *Implemented. EOHHS has worked with CMS to resolve prior period questioned cost amounts.*

Finding 2016-071 – CFDA 93.778 *(Reported Initially in Finding 2009-076)*

Controls need to be enhanced over the determination of individuals eligible for CNOM services since these processes are separate from other system eligibility controls. Processes implemented to provide a post-eligibility review should be completed timely.

2016-071a Subject all CNOM claiming to the system edits and eligibility control processes (MMIS and INRHODES systems) in place over all Medicaid program expenditures.

2016-071b Ensure that adopted standards and practices, including claiming reviews, are completed for all CNOM expenditures claimed during the fiscal year and credit the federal government for any amounts claimed in error.

2016-071c Ensure that all future CNOM claiming processes are fully operational prior to claiming expenditures to the Medicaid program.

Status: *Implemented. EOHHS has worked with CMS to resolve prior period reported findings and questioned cost amounts.*

Finding 2017-001 – Financial Statement Finding *(Reported Initially in Finding 2016-001)*

The State lacks a strategic plan to (1) coordinate needed replacements/enhancements to its key statewide financial and administrative systems and (2) ensure that critical legacy financial systems, such as the payroll system, which pose a business continuity risk, will be available to support State operations. Without a comprehensive plan, there is substantial risk that the intended integration of various components may not be achieved.

2017-001 Develop and implement a comprehensive strategic plan to address the integration approach and business continuity risks for planned and contemplated replacements/enhancements to critical statewide financial system functionalities.

Status: *Not Implemented. See finding 2018-001 for current year update and recommendation(s).*

Finding 2017-002 – Financial Statement Finding *(Reported Initially in Finding 2016-010)*

The continued and growing complexity of Medicaid program operations adds to the challenge of accurately accounting for all Medicaid program related financial activity within the State's financial statements.

2017-002a Evaluate and document control procedures to meet the financial reporting objectives for the Medicaid program. Delineate those responsibilities delegated to contractors and how those responsibilities are integrated in the overall structure.

2017-002b Improve financial oversight of the MCOs as a basis for enhancing program compliance objectives and enhancing data available for financial reporting purposes.

Status: *Partially Implemented. See finding 2018-002 for current year update and recommendation(s).*

Finding 2017-003 – Financial Statement Finding *(Reported Initially in Finding 2016-002)*

The State can enhance its communication and implementation of a statewide approach to design, document, and monitor its internal control policies and procedures following the principles contained in the revised internal control framework. The State's system of internal controls is intended to safeguard public resources and support accurate financial reporting.

2017-003 Enhance communication and implementation of a statewide approach to design, document, and monitor its internal control policies and procedures following the principles contained in the COSO framework/Green Book. Reassess, document, and monitor control procedures following the guidelines of the internal control framework.

Status: *Not Implemented. See finding 2018-004 for current year update and recommendation(s).*

Finding 2017-004 – Financial Statement Finding *(Reported Initially in Finding 2015-001)*

Certain duties performed by the Office of the General Treasurer are not sufficiently segregated which results in control deficiencies.

2017-004 Continue to enhance segregation of duties over cash receipts and disbursements. Consider reorganizing the Treasury receipts/reconciliation unit into two distinct units without overlapping responsibilities thereby enhancing segregation of duties.

Status: *Not Implemented during fiscal 2018; however implemented subsequently. See finding 2018-008 for current year update and recommendation(s).*

Finding 2017-005 – Financial Statement Finding *(Reported Initially in Finding 2015-008)*

The State can enhance certain system access controls within the RIFANS statewide accounting system.

2017-005a Review activities of "super users" (system administrators) on a scheduled basis to ensure that additions, modifications, and deletions initiated by them are appropriate.

2017-005b Improve controls over RIFANS access by continuing to explore reporting functionalities that would allow for periodic monitoring of user access for instances of unauthorized changes to user access and/or noncompliance with policies relating to delegated user access.

Status: *Partially Implemented. See finding 2018-009 for current year update and recommendation(s).*

Finding 2017-006 – Financial Statement Finding *(Reported Initially in Finding 2015-003)*

Statewide accounting controls over receivables should be enhanced.

2017-006 Explore options to enhance statewide general ledger controls over receivables.

Status: *Partially Implemented. See finding 2018-010 for current year update and recommendation(s).*

Finding 2017-007 – Financial Statement Finding

The form and content of the enacted State annual operating budget should be enhanced to facilitate alignment with the specific funds used to account for activities and to provide more effective planning and monitoring tools.

2017-007a Reexamine current procedures for preparing the budgetary comparison schedules, to facilitate identification of errors and utilize system data consistent with the preparation of the financial statements. Consider areas where efficiencies can be made with enhanced control processes.

2017-007b Improve the presentation of the budget amounts for transportation activities. Consider changes in the level of detail and include all transportation activity.

2017-007c Modify how the Lottery operations are included in the annual budget by including a separate proforma operating statement supporting the net transfer to the General Fund.

2017-007d Include fund information within the budget to facilitate recording the budget in the accounting system and preparing budget to actual comparisons.

Status: *Partially Implemented. See finding 2018-011 for current year update and recommendation(s).*

Finding 2017-008 – Financial Statement Finding

The Executive Office of Health and Human Services (EOHHS) authorized in excess of $200 million in system payouts and manual disbursements in fiscal 2017, representing provider advances, payments to managed care organizations for contract settlements and/or non—claims based financial activity, and other program disbursements. The reporting and internal control processes relating to these types of disbursements are manual and external to other established control procedures. Such amounts are not easily identified or quantified by the Medicaid Management Information System (MMIS).

2017-008a Consider alternatives to issuing system payouts and manual disbursements through the State fiscal agent when possible. When using FACN's to authorize disbursements, utilize a unique identification code to facilitate tracking of FACN disbursements.

2017-008b Develop comprehensive reporting for system payouts and manual disbursements to allow for better oversight and monitoring by EOHHS.

Status: *Partially Implemented. See finding 2018-003 for current year update and recommendation(s).*

Finding 2017-009 – Financial Statement Finding

Failure to install timely updates to the application software results in increased security risk and uncorrected software functionality issues identified by the software developer.

2017-009a Install software updates timely and at required intervals to ensure continued system operating functionality and maintain system security.

2017-009b Implement a required notification process to alert key application users and information technology personnel to allow an appropriate evaluation of risk and any required risk mitigation efforts.

Status: *Implemented.*

Finding 2017-010 – Financial Statement Finding

Responsibility for monitoring the investment activity and other compliance aspects of funds on deposit with a fiscal agent (trustee) should be vested with the Office of the General Treasurer.

2017-010 Assign responsibility for oversight and monitoring of funds on deposit with fiscal agents to the Office of the General Treasurer.

Status: *Not Implemented. See finding 2018-012 for current year update and recommendation(s).*

Finding 2017-011 – Financial Statement Finding *(Reported Initially in Finding 2016-004)*

Various responsibilities, related to the oversight of federal grants and assigned to the State's Office of Management and Budget (OMB), have not been fully addressed operationally.

2017-011 Enhance the operational activities of the OMB to comply with the enabling statute and to meet the need to provide centralized monitoring of federal programs, which constitute a material portion of the State's overall activities.

Status: *Partially Implemented. See finding 2018-013 for current year update and recommendation(s).*

Finding 2017-012 – Financial Statement Finding *(Reported Initially in Finding 2015-004)*

The State can improve controls over recording federal revenue to ensure (1) amounts are consistent with the limitations of grant awards from the federal government and (2) claimed expenditures on federal reports are consistent with amounts recorded in the State's accounting system. Further, statewide accounting functionalities should be implemented to support time reporting/payroll, grants management, and cost allocation – all functionalities that are integral to the management and control over federal programs.

2017-012a Improve functionality within the statewide financial systems to facilitate federal grant administration (grants management, cash management, and cost allocation).

2017-012b Build statewide processes over federal grant administration within the Office of Management and Budget to supplement accounting controls within the RIFANS accounting system.

Status: *Partially Implemented. See finding 2018-014 for current year update and recommendation(s).*

Finding 2017-013 – Financial Statement Finding *(Reported Initially in Finding 2016-018)*

Historical data used to support significant financial reporting estimates for tax revenues should be reassessed periodically to ensure continued validity – this is particularly important with more current data emanating from the new STAARS system.

2017-013 Assess the validity of data used to develop significant tax revenue and refund accrual estimates considering current data emanating from the new STAARS system. Refine estimates where necessary to reflect enhanced data provided by STAARS.

Status: *Partially Implemented. See finding 2018-018 for current year update and recommendation(s).*

Finding 2017-014 – Financial Statement Finding

Data to meet newly required disclosures relating to tax abatement agreements (GASB Statement No. 77) for taxes foregone due to tax abatement agreements should be derived from the Division of Taxation's STAARS system rather than accumulated manually. Current control procedures are inadequate to ensure the completeness and reliability of reported amounts.

2017-014a Develop guidelines for monitoring and reporting tax credits applied.

2017-014b Derive tax abatement financial reporting information from the STAARS tax system and implement relevant controls to ensure the completeness and reliability of such information.

Status: *Implemented.*

Finding 2017-015 – Financial Statement Finding *(Reported Initially in Finding 2016-015)*

Implementation of a new Taxation IT system impacts financial reporting due to new processing functionalities that results in a volume of returns held in suspense pending resolution. This complicates financial reporting estimates due to the uncertain effect of returns that had not fully processed at fiscal year end.

2017-015a Utilize advanced analytical tools to (1) prioritize resolution efforts for items included on the posted exception report, and (2) potentially apply a system resolution to groups of returns to reduce the number of returns requiring staff intervention.

2017-015b Assess and add additional staff as needed to meet peak demands, resolve existing backlogs and prevent processing backlogs from occurring going forward.

Status: *Partially Implemented. See finding 2018-019 for current year update and recommendation(s).*

Finding 2017-016 – Financial Statement Finding *(Reported Initially in Finding 2015-011)*

Electronic data received by Taxation should remain encrypted and then be uploaded to Taxation's systems through automated processes without manual intervention. Current procedures create rather than restrict opportunities for data manipulation.

2017-016a Develop monitoring and reporting procedures to ensure the proper upload of EFT data files.

2017-016b Develop a method where whenever there is an incorrect/missing addendum record for EFT files, those errors are tracked by the system, presented to the Processing section for resolution, and the resolution be recorded.

Status: *Implemented.*

Finding 2017-017 – Financial Statement Finding *(Reported Initially in Finding 2016-019)*

STAARS system user access rights need to be assessed and tailored to ensure access is consistent and appropriate with each employee's responsibilities.

2017-017 Complete a thorough review of system access for all STAARS users to ensure user access is appropriately limited and consistent with each user's specific job function and responsibilities.

Status: *Not Implemented. See finding 2018-022 for current year update and recommendation(s).*

Finding 2017-018 – Financial Statement Finding

Controls should be improved over the counter tax collections accepted at the Division of Taxation by upgrading the cashiering technology and integrating that functionality into the Divisions' STAARS system.

2017-018 Upgrade the application and related technology used to process counter payments at the Division of Taxation and ensure the cashiering application is integrated to the Division's STAARS system.

Status: *Not Implemented. See finding 2018-023 for current year update and recommendation(s).*

Finding 2017-019 – Financial Statement Finding

There was no demonstrated evidence of written risk assessment policies, procedures, documented methodologies, or conducting of actual technology risk assessments.

2017-019a Develop a documented risk assessment methodology as well as related policies and procedures.

2017-019b Perform risk assessments at least once every three years with the results documented and communicated to management for action.

Status: *Partially Implemented. See finding 2018-024 for current year update and recommendation(s).*

Finding 2017-020 – Financial Statement Finding

The Division of Taxation can enhance policies and operating procedures to restrict access to personally identifiable information and to ensure the effectiveness of the business continuity plan.

2017-020a Implement policies and procedures for controlling access to paper tax returns and checks as well as unattended workstations ("clean desk policy"). Implement access controls for shared printers to link the individual's identity to receipt of the printed output.

2017-020b Add all missing contact information to the agency business continuity plan.

2017-020c Define and implement procedures and assign resources to monitor audit log information and perform required follow-up procedures.

2017-020d Develop and implement procedures and controls to restrict the use of mobile storage devices such as USB sticks and writeable CDs at the agency.

2017-020e Obtain and install locks for all processing batch room doors and fix alarm on external door to sound if opened.

Status: *Partially Implemented. See finding 2018-024 for current year update and recommendation(s)*

Finding 2017-021 – Financial Statement Finding *(Reported Initially in Finding 2015-014)*

A finding concerning the administration of the personal income tax system was communicated confidentially due to the potential impact on taxpayer compliance.

Status: *Partially Implemented. Finding communicated confidentially in finding 2018-020.*

Finding 2017-022 – Financial Statement Finding *(Reported Initially in Findings 2015-006 and 2015-012)*

The State did not perform tests of its disaster recovery plan during fiscal years 2015, 2016, or 2017. In addition, off-site storage of agencies' applications backups was not sufficiently geographically diverse enough to provide reasonable assurance of recovery in the event of a regional disaster.

2017-022a Amend the contract with the designated disaster recovery vendor so that one of DoIT's data domains can be physically relocated to their facilities.

2017-022b Move the data domain to the designated disaster recovery vendor's location.

2017-022c Perform an off-site disaster recovery test at the State's designated disaster recovery site at least annually utilizing geographically disperse digital backup files.

Status *Partially Implemented. See finding 2018-015 for current year update and recommendation(s).*

Finding 2017-023 – Financial Statement Finding *(Reported Initially in Finding 2015-007)*

The State does not follow uniform enterprise-wide program change control procedures for the various IT applications operating within State government. This increases the risk that unauthorized or inappropriate changes could be made to IT applications without detection.

2017-023a Develop and implement procedures detailing specific requirements for program change control and disseminate and train DoIT support staff in its proper execution.

2017-023b Determine the appropriate combination of operational, procedural and/or technical adjustments required to use change management software to result in adequate program change control for the entire enterprise.

Status: *Partially Implemented. See finding 2018-016 for current year update and recommendation(s).*

Finding 2017-024 – Financial Statement Finding *(Reported Initially in Finding 2016-011)*

The State can enhance its enterprise-wide security policies and procedures and communication of these policies and procedures with State Agencies. Assessments of compliance for all critical IT applications had not been performed through fiscal 2017. The State can enhance its ongoing security posture by periodically performing a risk assessment to identify if mission critical systems comply with the policies and procedures.

2017-024a Continue to update IT security policies and procedures to ensure such policies and procedures conform to current standards and address all critical systems security vulnerabilities.

2017-024b Complete an initial assessment of compliance with systems security standards for the State's mission critical systems. Contract for the performance of IT security compliance reviews and accumulate and make use of available Service Organization Control reports to extend IT security monitoring of critical systems.

2017-024c New information systems or significant system modifications should be subjected to a formalized systems risk assessment security certification by DoIT or an external IT security consultant prior to becoming operational.

2017-024d Prepare a corrective action plan that prioritizes significant system security risks with the goal of achieving compliance with DoIT's formalized system security standards for all significant State systems.

Status: *Partially Implemented. See finding 2018-017 for current year update and recommendation(s).*

Finding 2017-025 – Financial Statement Finding *(Reported Initially in Finding 2016-021)*

Use of two computer systems to account for the activities of the Intermodal Surface Transportation (IST) Fund is unduly complex and weakens controls over financial reporting.

2017-025 Reevaluate the continued operation of two separate accounting systems to support financial reporting for the IST Fund as part of the State's preparation of a strategic plan for its core accounting and administrative functions. Consider using the RIDOT FMS for financial reporting.

Status: *Not Implemented. Reported in FY2018 as part of finding 2018-001 (Strategic Plan. See finding 2018-001 for current year update and recommendation(s).*

Finding 2017-026 – Financial Statement Finding *(Reported Initially in Finding 2015-015)*

Controls can be enhanced over the presentation of fund balance components which reflects the portions of fund balance with restrictions on use or amounts earmarked or committed by management.

2017-026 Ensure the transactions identified through the analysis of each activity and/or funding source within the IST Fund result in the appropriate categorization and reporting of fund balance components.

Status: *Not Implemented. See finding 2018-029 for current year update and recommendation(s).*

Finding 2017-027 – Financial Statement Finding *(Reported Initially in Finding 2015-015)*

Controls can be improved over the recording of license, registration and surcharge fees collected by the Division of Motor Vehicles (DMV) and deposited in the IST Fund.

2017-027 Strengthen and document control procedures over the fees collected by the Division of Motor Vehicles (DMV) and transferred to RIDOT to ensure compliance with General Law Chapter 39-18.1. Implement monitoring procedures to assess the reasonableness of revenue amounts collected by DMV for deposit in the IST Fund.

Status: *Not Implemented. See finding 2018-025 for current year update and recommendation(s).*

Finding 2017-028 – Financial Statement Finding

Controls can be improved over the reconciliation of trustee activity and RIFANS to ensure proper recording in the State's accounting system and to ensure investment activity is appropriately reported in accordance with generally accepted accounting principles.

2017-028 Enhance and document the policies, procedures and controls to ensure trustee activity is properly recorded in the State's accounting system and financial statements.

Status: *Implemented.*

Finding 2017-029 – Financial Statement Finding *(Reported Initially in Finding 2015-016)*

Controls should be improved over the process to identify impaired infrastructure as well as retired/replaced infrastructure assets. Controls over the identification of transportation infrastructure assets have been improved but can be further enhanced to ensure the accuracy of such amounts.

2017-029a Enhance controls over the recording of transportation infrastructure assets by documenting RIDOT's related policies, procedures and controls.

2017-029b Reconcile the RIDOT Infrastructure Report to RIFANS to ensure completeness. Include fiscal year-end accrued expenditures in the amounts identified as infrastructure assets.

2017-029c Enhance controls over the assignment of the project infrastructure code, by including supporting documentation and project personnel concurrence.

2017-029d Evaluate and document the consideration of whether any of the State's transportation infrastructure has been impaired consistent with GAAP criteria.

2017-029e Implement a process to remove estimated infrastructure assets and related accumulated depreciation when assets have been replaced or taken out of service.

Status: *Partially Implemented: a, b, & c. Not Implemented: d & e. See finding 2018-030 for current year update and recommendation(s).*

Finding 2017-030 – Financial Statement Finding *(Reported Initially in Finding 2015-017)*

Controls should be enhanced to ensure that data integrity is maintained over key data files used to process vendor payments and to draw federal funds for the Intermodal Surface Transportation (IST) Fund.

2017-030a Review the progress payment file transfer process to identify critical points where automated controls could be implemented to eliminate the need for manual intervention.

2017-030b Explore options to modify the Financial Management System to allow for multiple funding source award numbers (FSAN) to be linked to one Federal Aid Project.

Status: *Implemented.*

Finding 2017-031 – Financial Statement Finding

The RI Department of Employment and Training (DLT) did not reconcile Unemployment Insurance benefit payments, monthly.

2017-031 Reconcile unemployment insurance benefit payments, monthly and for the state fiscal year, on a timely basis. Require supervisory review of completed reconciliations.

Status: *Implemented.*

Finding 2017-032 – Financial Statement Finding *(Reported Initially in Findings 2015-021 and 2015-022)*

Central Falls School District – Material adjustments to year-end balances, restatements of opening balances and current year activity were necessary for the financial statement to be fairly presented in accordance with generally accepted accounting principles.

2017-032 A comprehensive plan to coordinate all District financial accounting recording and reporting activities is in the process of being developed and implemented. This plan should include the development of a comprehensive policies and procedures manual; adequate staffing including training of all staff as to both the processes and the software involved; appropriate controls related to authorization and review of recorded transactions; timely recording of transactions, reconciliations and reviews of reconciliations so as to detect and correct errors in a timely manner, and a comprehensive review of the District's organizational structure to ensure adequate levels of supervision and clear reporting paths for all staff involved.

Status: *Not Implemented. See finding 2018-034 for current year update and recommendation(s).*

Finding 2017-033 – Financial Statement Finding *(Reported Initially in Finding 2015-025)*

Central Falls School District – The District does not have procedures for maintaining the capital asset records on a perpetual basis or for taking a physical inventory of these assets. In addition, the District does not have a system in place for identifying capital assets acquired with federal grant funds.

2017-033 We recommend that the District implement an integrated software package that will enable capital assets to be recorded when the asset is acquired rather than being captured at year end. We further recommend that the capital asset inventory be updated to include the location of the asset and a code to identify all assets that are acquired with federal funds. Management should utilize this capital asset inventory listing, as well as the controllable asset listing, to conduct periodic inventories of the assets.

Status: *Not Implemented. See finding 2018-035 for current year update and recommendation(s).*

Finding 2017-034 – Financial Statement Finding *(Reported Initially in Finding 2016-029)*

RI Convention Center Authority – During our review of journal entries, we could not obtain evidence that reviews of journal entries, account reconciliations and event settlements took place.

2017-034 We recommend that SMG management ensure that all bank reconciliations, journal entries and event settlements be reviewed by an individual not involved in the preparation of the bank reconciliation, journal entries and event settlements as a customary part of the accounting process.

SMG personnel should document who reviewed account reconciliation and document when the review was completed. This can be done by signing off on the appropriate document with the date the review was completed.

The SMG personnel performing the review should ensure that all necessary and appropriate information is attached to the bank reconciliation, journal entry and entry settlement.

Status: *Implemented.*

Finding 2017-035 – Financial Statement Finding *(Reported Initially in Finding 2015-026)*

RI Convention Center Authority – During the years ended June 30, 2017 and 2016, the Authority was unable to fund the Operating Reserve requirement of the restrictive covenants for the RICC and the DDC pursuant to the indentures. During the years ended June 30, 2017 and 2016, the Authority was unable to fund the Renewal and Replacement requirement of the restrictive covenant for the DDC pursuant to the indenture.

2017-035 We recommend that the Authority fund the Operating Reserve and Renewal and Replacement Funds.

Status: *Not Implemented. See finding 2018-036 for current year update and recommendation(s).*

Finding 2017-036 – Financial Statement Finding

RI Infrastructure Bank – During the final quarter of fiscal year 2017, two long-tenured members of the Bank's finance team resigned. The new finance team inherited a poorly defined and poorly documented financial closing and reporting process. There was no internal control procedures manual which would have provided the new finance team with a "roadmap" to effectively perform these procedures. While management did locate source documentation for some of the Bank's footnote disclosures, which, theoretically, supported the preparation of the prior year financial statements, they were poorly labeled, haphazardly defined and, in many cases, did not agree to the final balances reported in the prior year financial statements. Most could not be located. In effect, they had to develop these procedures which were undertaken last year to calculate the amortization/accretion of bond premiums/discounts were not updated during the year, were not retained and/or did not agree to balances reported in the prior year financial statements. An instance was also noted whereby a change which had been communicated by an external third party related to bond arbitrage rebate liabilities at June 30, 2016 was not updated in the prior year nor was it adjusted during the year until identified by the new finance team during the close process.

2017-036 We recommend that management take the opportunity to de-brief in the aftermath of the current year audit process and take the time to formally document the internal control process developed this year over the financial closing and reporting process to eliminate the possibility that these issues will recur in subsequent years.

Status: *Implemented.*

Finding 2017-037 – CFDA 10.557; 93.757

RI Department of Health can enhance controls over time and effort reporting to ensure accurate allocations and reimbursements from federal programs.

2017-037 Enhance policies and procedures to ensure personnel costs allocated to federal programs are accurately reflecting the work performed, in accordance with 2 CFR section 200.430.

Status: *Implemented.*

Finding 2017-038 – CFDA 10.551; 10.561; 93.558; 93.575; 93.596; 93.767; 93.775; 93.777; 93.778
(Reported Initially in Finding 2015-069)

EOHHS and DHS must enhance systems security oversight over systems used to administer multiple federally funded programs to fully comply with federal regulations relating to ADP risk and system security review. The plan must be sufficiently comprehensive and include timely reaction to and consideration of identified security issues and risk factors.

2017-038a Enhance compliance with federal ADP Risk Analysis and System Security Review requirements by creating a comprehensive, integrated plan for RIBridges and the MMIS.

2017-038b Ensure that the formalized plan includes a comprehensive risk assessment for both systems, critical controls deemed effective in mitigating those risks, and specific monitoring procedures to ensure the effective operation of those policies and procedures, including reliance on external contract services when required.

Status: *Partially Implemented. See finding 2018-038 for current year update and recommendation(s).*

Finding 2017-039 – CFDA 10.551; 10.561; 93.558; 93.575; 93.596; 93.767; 93.775; 93.777; 93.778

Controls can be enhanced to ensure consistent allocation of costs to multiple federal programs in compliance with cost allocation plans and the federally approved Implementation Advance Planning Document (IAPD) for RIBridges system development costs.

2017-039a Adjust the departmental cost allocation plan as required to appropriately allocate costs among various federal programs. Complete the determination of the final adjusted allocation of costs for fiscal 2017 and make required accounting and financial reporting corrections.

2017-039b Obtain federal approval of the cost allocation plan which is currently pending.

2017-039c Improve oversight and documentation of system development costs identified and allocated to federal programs through the IAPD.

Status: *Implemented.*

Finding 2017-040 – CFDA 10.551; 10.561 *(Reported Initially in Finding 2015-030)*

DHS can improve its controls over federal reporting to ensure that SNAP program expenditures are properly reported.

2017-040 Enhance controls to ensure expenditures are properly matched and reported. Report administrative expenditures based on the approved cost allocation system.

Status: *Partially Implemented. See finding 2018-039 for current year update and recommendation(s).*

Finding 2017-041 – CFDA 10.551; 10.561

Implementation of the RIBridges eligibility system limited the Department's ability to submit timely and accurate federal reports required for the program.

2017-041 Ensure the RIBridges system provides complete and accurate data to meet all the federally required reporting for SNAP. Correct previously submitted FNS-46 reports as required.

Status: *Not Implemented. See finding 2018-040 for current year update and recommendation(s).*

Finding 2017-042 – CFDA 10.551; 10.561

The RIBridges eligibility system does not currently meet all the functional requirements of an automated data processing system as outlined in federal SNAP regulations.

2017-042 Complete efforts to ensure that the RIBridges systems development vendor implements all designed system features including those directed at eligibility determination and the SNAP benefit issuance and reconciliation requirements.

Status: *Not Implemented. See finding 2018-041 for current year update and recommendation(s).*

Finding 2017-043 – CFDA 10.551; 10.561

The new RIBridges eligibility system is not producing reports to allow daily reconciliation of electronic benefits authorized and disbursed and to ensure accurate and timely completion of federal reports.

2017-043 Complete efforts to ensure that the RIBridges systems development vendor implements all designed system features including those for the SNAP benefit issuance and reconciliation requirements.

Status: *Not Implemented. See finding 2018-042 for current year update and recommendation(s).*

Finding 2017-044 – CFDA 14.228 *(Reported Initially in Finding 2016-034)*

The State is responsible for minimizing the time between the drawdown of federal funds and disbursement. During fiscal 2017, while significant improvement was made in cash management procedures for the Community Development Block Grant (CDBG), there were still instances of delays between the drawdown and disbursement of federal funds.

2017-044 Enhance controls over cash management to ensure compliance with 31 CFR Part 205, Subpart B.

Status: *Implemented.*

Finding 2017-045 – CFDA 14.228

The HUD 60002, Section 3 Summary Report, Economic Opportunities for Low and Very Low Income Persons was not completed with accurate information due to insufficient procedures utilized by the department to track and review data required to complete the federal report in advance of its submission.

2017-045 Enhance procedures for ensuring that data required for completion of required federal reporting is received in advance of the reporting deadline via tracking sheets or regular meetings between management and staff to update the status on subrecipients' responses outstanding.

Status: *Implemented.*

Finding 2017-046 – CFDA 14.228 *(Reported Initially in Finding 2016-035)*

The Office of Housing and Community Development (OHCD) can enhance its monitoring of subrecipients as required by federal program requirements.

2017-046a Review annual subrecipient audit reports and, in instances where there are audit findings, ensure that the subrecipient takes appropriate and timely corrective action.

2017-046b Complete subrecipient monitoring reviews in a timely manner and perform timely follow up to ensure corrective action by subrecipients.

Status: *Implemented.*

Finding 2017-047 – CFDA 16.922

The State did not have procedures in place to comply with requirements to allocate and report interest earnings on Equitable Sharing Program cash balances during fiscal 2017.

2017-047 Calculate interest income on the Equitable Sharing program's cash balance and record such interest earnings in the applicable federal program revenue accounts in the State accounting system (RIFANS). Report interest income in the Equitable Sharing Agreement and Certification Form, annually.

Status: *Implemented.*

Finding 2017-048 – CFDA 17.225 *(Reported Initially in Finding 2015-032)*

The Department of Labor and Training (DLT) did not make the necessary changes to its system to allow for the imposition of penalties on overpayments due to fraud, and to prohibit relief from charges to an employer's UC account when the overpayment was the result of the employer failure to respond timely or adequately to a request for information.

2017-048 Adopt procedures to: (1) impose and collect a 15% penalty on benefit overpayments of claimants who commit fraud (RIGL 28-42-62.1(a)(4)) and (2) prohibit providing relief to an employer account when an overpayment is the result of the employer's failure to respond timely or adequately to a request for information by the State agency (RIGL 28-43-3(2)(viii)).

Status: *Not Implemented. See finding 2018-047 for current year update and recommendation(s).*

Finding 2017-049 – CFDA 17.225

The Department of Labor and Training (DLT) can enhance controls over preparation of the TAPR performance report required for the Unemployment Insurance Program by reconciling similar data included on multiple reports prior to submission.

2017-049 Investigate the cause of the omitted wages and take corrective action to strengthen controls to ensure that participant wages are properly reported. Submit the corrected federal report(s) as necessary.

Status: *Implemented.*

Finding 2017-050 – CFDA 17.225

The Department of Labor and Training (DLT) reported June 30, 2017 Employment Security Clearing Account balance does not agree with the State accounting system (RIFANS) general ledger balance.

2017-050 Adjust the ETA 2112 cumulative reported balance into agreement with the State accounting system (RIFANS) general ledger balance.

Status: *Implemented.*

Finding 2017-051 – CFDA 20.205; 20.219 *(Reported Initially in Finding 2006-033)*

RIDOT should further enhance its quality assurance program to ensure that required materials tests are performed and documented consistent with federal regulation and RIDOT policy.

2017-051a Enforce existing policies designed to better link testing results to projects by establishing a uniform file naming convention for test results shared on the RIDOT network.

2017-051b Update the Procedures for Uniform Record Keeping (PURK) manual to include all current policies and procedures. Maintain and distribute the PURK manual electronically.

2017-051c Enhance coordination among the three sections of RIDOT that have shared responsibility for the overall operation of the Department's Quality Assurance Program.

2017-051d Implement a single department-wide information technology solution to ensure the Quality Assurance Testing is timely, reliable and available to the Resident Engineers responsible for projects and to enhance overall departmental efficiencies.

2017-051e Train all project-related staff, design through closeout, as to the requirements of 23 CFR 637.205 and the Department's related policies, procedures and controls. Establish a plan of self-testing (e.g., internal audit) of the Department's policies, procedures and controls to ensure compliance with the required Quality Assurance Program.

Status: *Partially Implemented: b & c. Not Implemented: a, d, & e. See finding 2018-049 for current year update and recommendation(s).*

Finding 2017-052 – CFDA 20.205; 20.219 *(Reported Initially in Finding 2013-042)*

Documentation of utility accommodation requirements for projects should be enhanced.

2017-052 Improve Utility Accommodation file documentation to demonstrate compliance with federal requirements.

Status: *Implemented.*

Finding 2017-053 – CFDA 20.205; 20.219 *(Reported Initially in Finding 2012-053)*

RIDOT can improve compliance with federal requirements relating to value engineering analyses by including all the required elements in its value engineering policy. RIDOT can improve compliance with federal requirements relating to value engineering analyses by establishing a control structure in accordance with 2 CFR 200.

2017-053 Enhance the Value Engineering analysis policies to include all requirements contained in 23 CFR 627 and maintain effective controls to ensure compliance with the Value Engineering analysis requirement contained in 23 CFR 627.

Status: *Partially Implemented. See finding 2018-050 for current year update and recommendation(s).*

Finding 2017-054 – CFDA 20.205; 20.219

RIDOT can enhance its controls to ensure compliance with Title 23, U.S.C Section 106(c)(3).

2017-054 Ensure compliance with the Oversight Agreement and strengthen controls over obtained FHWA approval for all federal oversight projects.

Status: *Implemented.*

Finding 2017-055 – CFDA 20.205; 20.219 *(Reported Initially in Finding 2016-046)*

Controls over the calculation of the Indirect Cost Rate Plan can be improved to ensure compliance with federal requirements identified in 2 CFR Part 200, Appendices III-VII.

2017-055 Improve controls over the calculation of the Indirect Cost Rate.

Status: *Implemented.*

Finding 2017-056 – CFDA 64.005

DHS did not sufficiently document the specific project costs reimbursed through the federal grant. Controls should be enhanced to ensure adequate documentation is maintained to demonstrate that only eligible costs allowable for federal participation are charged to the program.

2017-056 Support project costs allocated to the federal grant with adequate documentation delineating the specific costs reimbursed. Enhance controls to ensure adequate documentation is maintained to demonstrate that only eligible costs allowable for federal participation are charged to the program.

Status: *Not Implemented. DHS intends to complete reconciliations and fully implement the recommendation by April 2019.*

Finding 2017-057 – CFDA 84.007; 84.033; 84.038; 84.063; 84.268; 84.379; 93.342; 93.364

University of Rhode Island – The Federal Government requires the University to report student enrollment changes to the National Student Loan Data System ("NSLDS") within sixty days. Out of a sample of sixty-one students with enrollment status changes, two students' effective dates were reported incorrectly to NSLDS.

2017-057 We recommend that the Enrollment Services department review and update or implement policies and procedures for manual entries of effective dates for NSLDS reporting.

Status: *Implemented.*

Finding 2017-058 – CFDA 84.007; 84.033; 84.038; 84.063; 84.268; 84.379; 93.342; 93.364

Rhode Island College – The Federal government requires the College to report student enrollment changes to the National Student Loan Data System ("NSLDS") within sixty days. In a sample of forty students who either graduated, withdrew from the institution, or became enrolled on less than half-time basis, we noted the following:

- Three students that graduated were never reported to NSLDS.
- One student that graduated was not reported to NSLDS within the required time frame.
- The time frame to report the status change was 170 days, which was 110 days late.

2017-058 We recommend that management strengthen their oversight of the NSLDS reporting to ensure that timely and accurate reporting of enrollment information is made to the NSLDS in order for them to be in compliance with the requirements. We also recommend that management establish and enforce specific administrative procedures, according to which students who unofficially withdraw from the College will be identified and subsequently reported to the NSLDS within prescribed time frames. We recommend that the College discuss the reason(s) for the delay in reporting from the NSC to NSLDS with the NSC audit resource team. Submitting additional roster files would also reduce the likelihood of this finding occurring in the future.

Status: *Implemented.*

Finding 2017-059 – CFDA 84.007; 84.033; 84.038; 84.063; 84.268; 84.379; 93.342; 93.364

Rhode Island College – The Financial Aid Office is responsible for awarding student federal, state and institutional financial aid. The Federal Government requires the College to compare the students Cost of Attendance ("COA") with the students Estimated Family Contribution ("EFC") and Estimated Financial Assistance ("EFA"). EFA must include all grants and scholarships the College anticipates the student will receive regardless of the source. The total aid awarded to a student cannot exceed the students COA. Federal, state and institutional aid is awarded by the Financial Aid Office. Testing revealed that 1 student was over-awarded Title IV aid.

2017-059 The College should strengthen the review of packaging and disbursing aid to ensure that financial aid is not awarded in excess of the students' cost of attendance.

Status: *Implemented.*

Finding 2017-060 – CFDA 84.007; 84.033; 84.038; 84.063; 84.268; 84.379; 93.342; 93.364
(Reported Initially in Finding 2015-046)

Community College of Rhode Island – The Federal government requires the College to report student enrollment changes to the National Student Loan Data System ("NSLDS") within sixty days. Out of a sample of forty students with enrollment status changes, four students' changes were not reported in a timely manner to the NSLDS.

2017-060 We recommend that the Community College review and update its policies and procedures for transmitting information to the National Student Clearinghouse on enrollment changes.

Status: *Partially Implemented. CCRI has created additional edit reports and is continuing to work with guidance from the National Student Clearinghouse in an effort to fully correct the finding.*

Finding 2017-061 – CFDA 93.568

Payments made to subrecipients were not consistently supported by information reflecting subrecipient cash balances and the estimates of each agency's immediate cash needs.

2017-061 Implement a frequent and regular payment schedule for all subrecipients which reflects reliable and documented estimates of immediate cash needs.

Status: *Partially Implemented. See finding 2018-061 current year update and recommendation(s).*

Finding 2017-062 – CFDA 93.568 *(Reported Initially in Finding 2015-053)*

DHS must improve controls to ensure compliance with the LIHEAP period of performance requirements and related federal reporting requirements.

2017-062a Ensure that at least 90% of federal awards are expended or obligated before federal fiscal year end, consistent with federal guidelines for meeting period or performance requirements.

2017-062b Maintain documentation to support the calculations confirming compliance with period of performance requirements.

2017-062c Ensure that the Carryover and Reallotment Report is consistent with supporting documentation and strengthen controls over the report to ensure accurate detail is submitted.

Status: *Partially Implemented. See finding 2018-062 for current year update and recommendation(s).*

Finding 2017-063 – CFDA 93.568

Documentation available was insufficient to adequately support the number of families receiving LIHEAP benefits as included on the federal Annual Report on Households Assisted by LIHEAP report.

2017-063a Ensure that information reported on the Annual Report on Households Assisted by LIHEAP is adequately supported by accurate information from the systems used to administer the program. Implement management review prior to submission of reports, including support for all amounts reported.

2017-063b Cross-train program staff on the use of the Hancock system to enhance controls over program operation and ensure key data is retrievable.

Status: *Partially Implemented. See finding 2018-062 for current year update and recommendation(s).*

Finding 2017-064 – CFDA 93.558

Due to the limited operation and effectiveness of controls over eligibility for the TANF program during fiscal 2017, the State did not comply with the TANF eligibility requirements, collectively.

2017-064a Require the RIBridges system development vendor to address the system deficiencies which result in material noncompliance with federal regulations regarding TANF eligibility.

2017-064b Complete a plan to ensure all designed system controls over TANF eligibility are fully operational.

Status: *Partially Implemented. See finding 2018-056 for current year update and recommendation(s).*

Finding 2017-065 – CFDA 93.558

Implementation of the new RIBridges eligibility system affected the availability and reliability of data needed to prepare timely and accurate federal reports.

2017-065a Prepare financial reports using information from the federally approved cost allocation plan.

2017-065b Continue efforts to improve the reliability of RIBridges data reporting to allow timely and accurate federal reporting of TANF case data.

Status: *Partially Implemented. See finding 2018-057 for current year update and recommendation(s).*

Finding 2017-066 – CFDA 93.558

The RIBridges system did not prompt employment and career advisors to update/develop new work participation plans for clients upon the expiration of an existing plan.

2017-066 Improve RIBridges functionality to prompt employment and career advisors when clients must update expiring work participation plans.

Status: *Partially Implemented. See finding 2018-058 for current year update and recommendation(s).*

Finding 2017-067 – CFDA 93.558

The State did not comply with the Income Eligibility and Verification System requirements upon implementation of the new RIBridges integrated eligibility system in fiscal 2017.

2017-067 Implement and ensure the continued operation of federally required data interfaces within the RIBridges eligibility system to meet the IEVS TANF program requirement.

Status: *Not Implemented. See finding 2018-059 for current year update and recommendation(s).*

Finding 2017-068 – CFDA 93.575; 93.596

The RIBridges eligibility system lacked effective income validation controls during fiscal 2017 which impacted program eligibility determinations and the amount of required parent cost-sharing amounts. RIBridges was not consistently calculating correct cost-sharing amounts for both parents and providers, which required supplemental payments to childcare providers.

2017-068a Ensure RIBridges consistently and correctly calculates cost-sharing amounts for parents and providers.

2017-068b Complete a plan to ensure all designed system controls over CCDF eligibility, parent co-shares, and provider payments are fully operational.

Status: *Partially Implemented. See finding 2018-064 for current year update and recommendation(s).*

Finding 2017-069 – CFDA 93.575; 93.596

Financial reports were not filed during fiscal year 2017 for the CCDF Cluster Programs.

2017-069a Submit required federal reports for the CCDF program.

2017-069b Assess the availability and reliability of data required to meet program reporting requirements.

Status: *Implemented. DHS submitted all delinquent federal financial reports during SFY2018.*

Finding 2017-070 – CFDA 93.767, 93.775; 93.777; 93.778 *(Reported Initially in Findings 2014-067 and 2015-060)*

Due to the limited operation and effectiveness of controls over eligibility for the Medicaid and CHIP programs during fiscal 2017, the State did not comply with the Medicaid and CHIP program eligibility requirements, collectively.

2017-070a Require the RIBridges system developer to address the system deficiencies which result in material noncompliance with federal regulations regarding Medicaid eligibility.

2017-070b Formalize and implement a plan to ensure all designed system controls over eligibility are fully operational.

Status: *Partially Implemented. See findings 2018-065 and 2018-066 for current year update and recommendation(s).*

Finding 2017-071 – CFDA 93.767; 93.775; 93.777; 93.778 *(Reported Initially in Finding 2010-080)*

The effectiveness of the MEQC program is diminished by the continued RIBridges functional limitations. The MEQC Unit continues to experience challenges in obtaining the information needed to verify eligibility determinations made by RIBridges. A significant volume of systemic issues identified by MEQC processes are currently pending corrective action in RIBridges.

2017-071a Complete required corrective action plans to address issues identified in the MEQC sampling process.

2017-071b Utilize the RIBridges system deficiencies highlighted through the MEQC process to support and prioritize needed system fixes and enhancements. Enhance RIBridges functionalities to facilitate timely and effective MEQC testing.

Status: *Partially Implemented. See finding 2018-067 for current year update and recommendation(s).*

Finding 2017-072 – CFDA 93.767; 93.775; 93.777; 93.778 *(Reported Initially in Finding 2015-062)*

Delays in the enrollment of Medicaid eligible newborns within RIBridges resulted in significant and related delays in provider claims adjudication and payments to managed care organizations (MCOs). EOHHS advanced $6.5 million to MCOs covering newborns at June 30, 2017 whose eligibility was still pending. The MCOs were due capitation of approximately $12.4 million at June 30, 2017 for coverage provided to newborns since birth - $6.5 million in advance payments were made for such amounts.

2017-072a Implement a long-term solution to streamline the functionality of enrolling Medicaid eligible newborns in RIBridges.

2017-072b Resolve the backlog of newborn enrollments and reconcile outstanding advances to the MCOs.

Status: *Implemented. Newborn enrollment procedures have been implemented to reduce time delay in adding newborn to existing Medicaid cases. Related financial issues are being resolved in conjunction with managed care contract settlements for past years.*

Finding 2017-073 – CFDA 93.775; 93.777; 93.778

In many instances, particularly for Medicaid applicants requiring long-term care services and supports, the State is not complying with timely determination of Medicaid eligibility requirements. Processing Medicaid applications for long-term care services in RIBridges continues to be problematic resulting in significant delays in determining eligibility and necessitating advances to long-term care service providers.

2017-073 Improve RIBridges system functionality and performance to allow compliance with the timely determination of eligibility requirement particularly for applicants seeking long-term services and supports.

Status: *Partially Implemented. See finding 2018-068 for current year update and recommendation(s).*

Finding 2017-074 – CFDA 93.775; 93.777; 93.778

EOHHS made advance payments totaling $12.5 million to nursing home providers between September 2016 and January 2017 due to delays in processing eligibility for nursing home patients with pending Medicaid eligibility. The advances made in this period were federally reimbursed (at the applicable federal financial participation rate) but did not meet criteria for reimbursement. The advances to nursing facility providers remain outstanding.

2017-074 Recoup the advances to providers and credit the federal grantor for their portion of advances made.

Status: *Partially Implemented. See finding 2018-069 for current year update and recommendation(s).*

Finding 2017-075 – CFDA 93.767; 93.775; 93.777; 93.778 *(Reported Initially in Finding 2016-063)*

Data discrepancies exist between the systems used to determine Medicaid and CHIP eligibility (RIBridges) and the claims/capitation payment system (MMIS). As of June 30, 2017, the MMIS reported 16,000 recipients more than RIBridges. This impacts controls to ensure payments are only made on behalf of eligible individuals and has resulted in duplicate capitation payments being made to managed care organizations.

2017-075a Identify and resolve the underlying causes of eligibility data discrepancies between the MMIS and RIBridges systems.

2017-075b Determine the necessary corrective action and resources needed to eliminate the current backlog of system exceptions and future mismatches between the two systems.

Status: *Partially Implemented. See finding 2018-070 for current year update and recommendation(s).*

Finding 2017-076 – CFDA 93.767; 93.775; 93.777; 93.778 *(Reported Initially in Finding 2009-086)*

EOHHS lacks strong oversight procedures regarding fiscal monitoring and contract settlement for its managed care organizations (MCOs). Capitation payments to MCOs represent nearly 63% of Medicaid benefit expenditures. EOHHS needs to develop a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled each contract period. More stringent audit and financial monitoring procedures should be employed.

2017-076a Develop a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled each contract period.

2017-076b Improve the adjudication of MCO encounter data to provide a more complete determination of the medical expenditures incurred during managed care contract periods. Disallow any costs from the contract settlement process that cannot be fully adjudicated.

2017-076c Require an independent audit of selected controls employed by the MCOs as well as the overall medical and administrative costs measured under the contracts.

Status: *Partially Implemented. See finding 2018-071 for current year update and recommendation(s).*

Finding 2017-077 – CFDA 93.775; 93.777; 93.778 *(Reported Initially in Finding 2015-075)*

The State has not fully complied with federal requirements and State plan provisions relating to annual review of rate components stipulated in the State Plan and provider audit requirements outlined within the CMS-approved methodologies.

2017-077a EOHHS should either comply with the federal and State plan rate review and periodic audit requirements for both inpatient and long-term care providers or amend the State Plan with CMS approval.

2017-077b Controls should be implemented to detect provider "upcoding" due to the potential material impact upon inpatient payments.

Status: *No Longer Valid. CMS annually approves rate changes proposed by EOHHS.*

Finding 2017-078 – CFDA 93.775; 93.777; 93.778 *(Reported Initially in Finding 2002-065)*

Controls should be improved over the quarterly reporting of Medicaid administrative expenditures by reconciling reported administrative expenditures to the State's accounting system.

2017-078a Reconcile administrative expenditures reported on federal reports with Medicaid administrative accounts in RIFANS.

2017-078b Modify processes as needed to minimize reconciling items between federal reporting and RIFANS.

Status: *Partially Implemented. See finding 2018-072 for current year update and recommendation(s).*

Finding 2017-079 – CFDA 93.775; 93.777; 93.778 *(Reported Initially in Finding 2013-075)*

EOHHS needs to reassess all activities considered surveillance utilization review services (SURS) performed within the Medicaid program to comply with federal regulations and amend the State Plan to accurately reflect the State's current practices.

2017-079 Reassess and formally document the State's comprehensive activities designed to materially comply with federal requirements relating to SURS. Amend the Medicaid State plan to accurately reflect the State's current practices relating to SURS.

Status: *Partially Implemented. See finding 2018-073 for current year update and recommendation(s).*