

**State of Rhode Island**

**Single Audit Report**

**Fiscal Year Ended June 30, 2021**



**Dennis E. Hoyle, CPA, Auditor General**

**Office of the Auditor General**

**General Assembly**

**State of Rhode Island**



# Office of the Auditor General

State of Rhode Island - General Assembly  
Dennis E. Hoyle, CPA - Auditor General

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June 30, 2022

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

I am pleased to submit the State's **Single Audit Report** for the fiscal year ended June 30, 2021. 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.

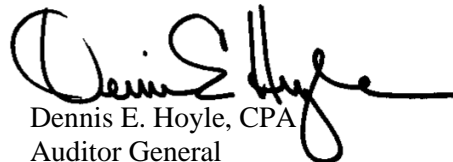
The **Single Audit Report** includes our reports on (1) the basic financial statements of the State of Rhode Island, (2) internal control over financial reporting and on compliance and other matters, and (3) compliance with requirements applicable to each major federal program and on internal control 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 in *Section F* of this report.

The **Single Audit Highlights** section on the following pages summarizes (1) COVID-19 federal assistance received by the State to address the effects of the global pandemic, (2) key statistics about federal assistance received by the State over the last decade, (3) the federal programs audited in fiscal 2021 as major programs, and (4) audit findings related to the financial statements and the administration of federal programs.

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

### Memorandum

To: Federal Single Audit Clearinghouse

Re: Submission of the State of Rhode Island – *Single Audit Report*  
Fiscal Year Ended June 30, 2021  
Federal EIN # 05-6000522

Submission of the State of Rhode Island's *Single Audit Report*, for the fiscal year ended June 30, 2021, was delayed beyond the original due date of March 31, 2022, due to the effect of the global COVID-19 pandemic. Such extensions were permitted pursuant to federal Office of Management and Budget (OMB) Memo M-21-20 - Appendix 3 - *Disaster Relief Flexibilities to Reduce Burden for Financial Assistance*.

OMB authorized therein:

*IX. Extension of Single Audit submission: Awarding agencies, in their capacity as cognizant or oversight agencies for audit, should allow recipients and subrecipients that have not yet filed their single audits with the Federal Audit Clearinghouse as of the date of the issuance of this memorandum that have fiscal year-ends through June 30, 2021, to delay the completion and submission of the Single Audit reporting package, as required under Subpart F of 2 CFR § 200.501 to six months beyond the normal due date. No further action by awarding agencies is required to enact this extension. This extension does not require individual recipients and subrecipients to seek approval for the extension by the cognizant or oversight agency for audit; however, recipients and subrecipients should maintain documentation of the reason for the delayed filing. Recipients and subrecipients taking advantage of this extension would still qualify as a "low-risk auditee" under the criteria of 2 CFR § 200.520(a). (2 CFR § 200.501)*

The State of Rhode Island experienced delays both in preparing and auditing components of the comprehensive Single Audit Report due to multiple effects of the COVID-19 global pandemic. This memorandum is included within the reporting package for the State of Rhode Island's *Single Audit Report* - Fiscal Year Ended June 30, 2021 - to meet the documentation requirement of OMB Memo M-21-20.

## State of Rhode Island – Fiscal 2021 – Single Audit Highlights

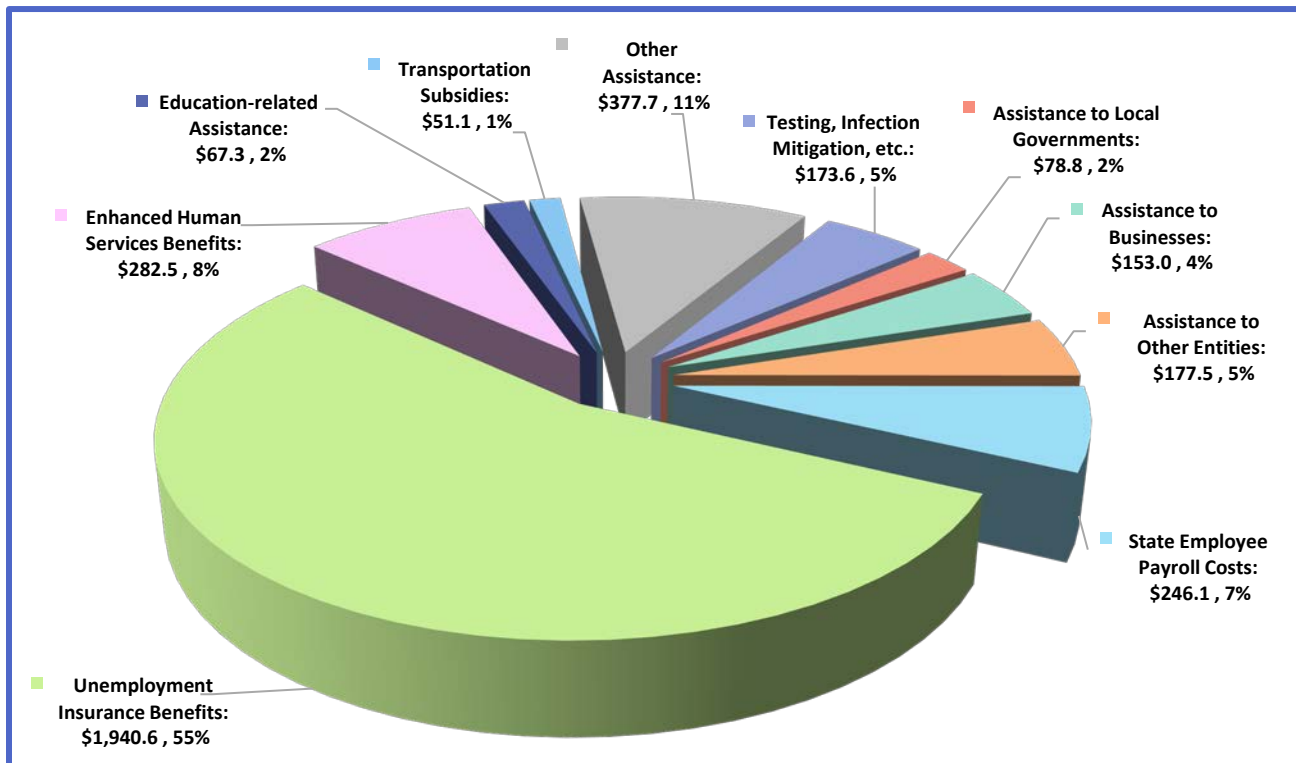
The annual Single Audit is required by federal law and regulation as a condition of continued federal assistance. The report includes the State's financial statements, a detailed schedule of federal award expenditures and our reports outlining internal control deficiencies and noncompliance relating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

Unprecedented amounts of federal assistance were expended in fiscal 2021. Total expenditures of federal awards increased to \$8.4 billion in fiscal 2021 of which approximately \$3.6 billion was COVID related. Some COVID funding was received from new federal programs created in response to the pandemic while other awards resulted from the expansion or modification of existing federal programs. The major sources of COVID-19 related funding available during fiscal 2021 and expenditures through June 30, 2021, are detailed below:

<i>COVID-19 related Federal Assistance:</i>	<i>Fiscal 2021 Expenditures</i>
Unemployment Insurance Benefits	\$ 1,730,031,801
Unemployment Benefits funded by FEMA	172,253,113
Coronavirus Relief Fund (CRF) – (total award \$1.25 billion)	947,668,662
FEMA Disaster Assistance (Stafford Act)	182,946,726
Epidemiology and Laboratory Capacity	55,309,124
Enhanced Federal Medicaid Assistance Percentage (FMAP) for Medicaid	120,414,960
Enhanced SNAP Benefits	107,070,005
Pandemic EBT (cash benefits in lieu of in-school meals provided to students)	50,374,577
Education Stabilization Fund	54,833,985
Other COVID-19 related assistance	127,360,375
<b>Total</b>	<b>\$ 3,548,263,328</b>

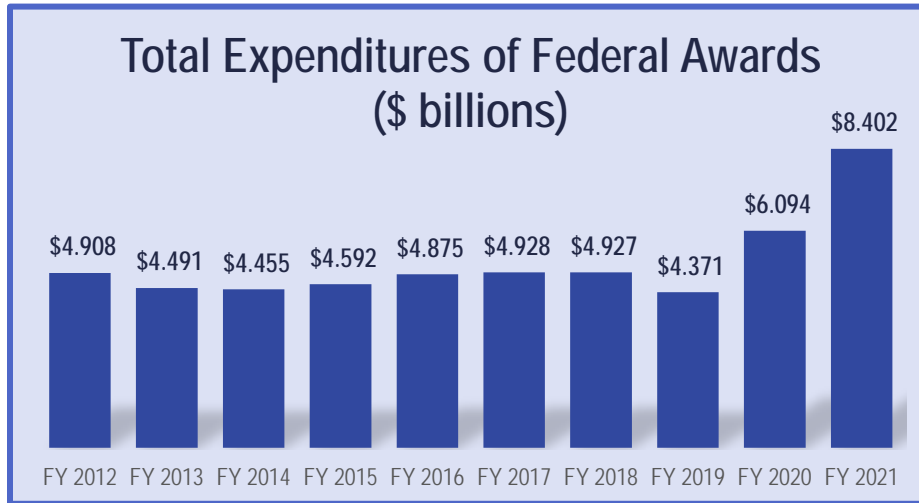
Eligibility and benefit provisions for many programs were modified in response to the pandemic to either facilitate the application for benefits, continue eligibility that existed pre-pandemic, or enhance benefits available through the programs. An extensive array of services to individuals and costs to support pandemic response efforts were reimbursed under these programs as shown in the chart below:

**Federal COVID-Related Program Expenditures by Category (\$ in millions)**



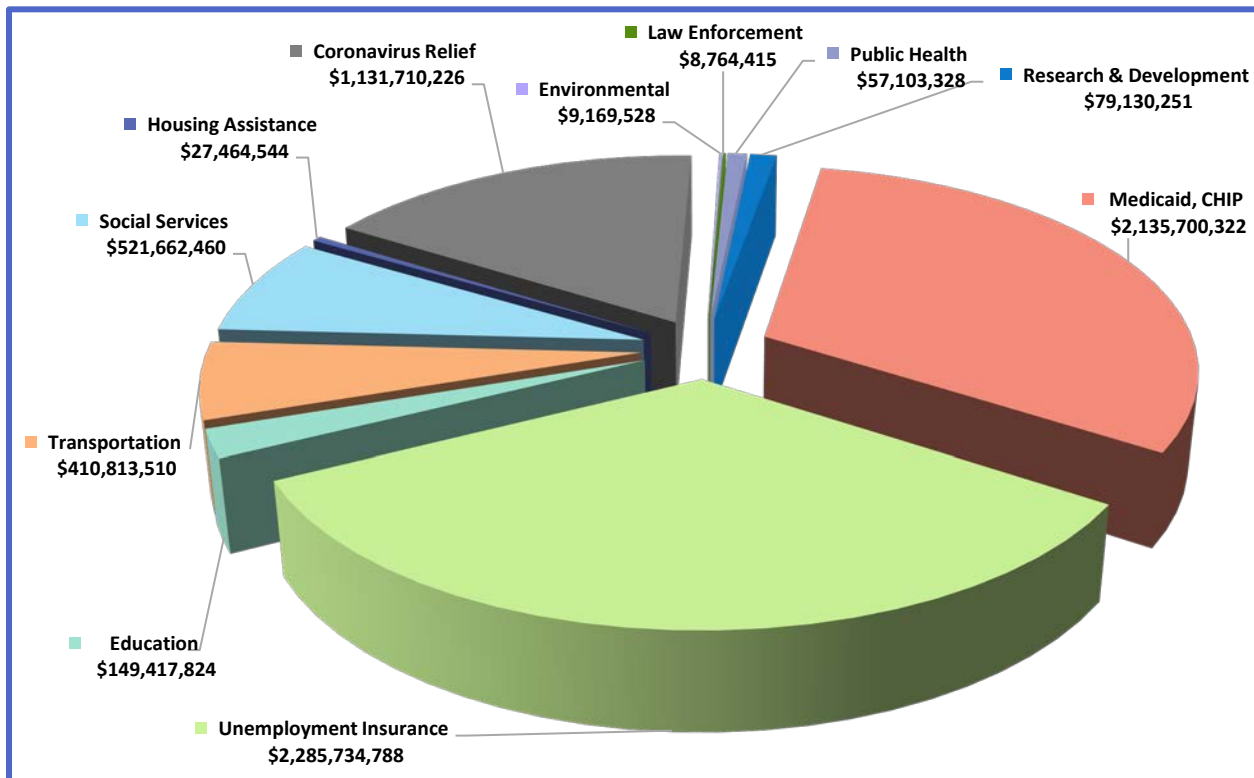
## State of Rhode Island – Fiscal 2021 – Single Audit Highlights

The following graph details the changes in total expenditures of federal awards as reported in the State's *Single Audit Reports* for fiscal years 2012 to 2021. In years 2020 and 2021, the significant increase was due to COVID-19 federal assistance. In fiscal 2019, the decrease in total expenditures of federal awards largely resulted from the return of federally guaranteed student loans to the federal government.



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 continues to be the single largest program with fiscal 2021 expenditures totaling approximately \$3.1 billion - the federal government shared \$2.1 billion of that cost. Consistent with federal guidelines, we tested 81% of the total expenditures of federal awards as major programs following risk-based criteria established in the federal Uniform Guidance. Major program expenditures are summarized in the chart below:

### Fiscal 2021 Federal Award Expenditures Tested as Major Programs – Summarized by Program Type



# State of Rhode Island – Fiscal 2021 – Single Audit Highlights

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

Summary of findings included in the 2021 <i>Single Audit Report</i>			
	Primary government	Component units	Total
<b>Findings related to the financial statements</b>			
Material noncompliance / material weakness in internal control	1		1
Material weaknesses in internal control	6	3	9
Significant deficiencies in internal control	23	3	26
Material noncompliance		1	1
<b>Findings related to the administration of federal programs</b>			
Material noncompliance / material weaknesses in internal control	5		5
Material weaknesses in internal control	10	1	11
Significant deficiencies in internal control	18	5	23
Noncompliance / significant deficiencies in internal control	2		2
<b>Total</b>	<b>65</b>	<b>13</b>	<b>78</b>

## 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, 2021. 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 and material noncompliance based on our audit. Findings repeated from prior years are identified. These financial statement related findings are also required to be included in the Single Audit Report submitted to the federal government.

The State is implementing its strategic plan to replace and enhance key statewide financial and administrative systems and is in the process of selecting a software vendor and system integrator. The implementation should focus on ensuring a successful outcome through effective management of critical risks. The plan detailed the need for, and the benefits to be derived from, an enterprise applications modernization effort ultimately concluding that "the risks of inaction far outweigh the cost of upgrades in capability".

This effort is intended to address certain long-standing issues which negatively impact controls over operations and financial reporting resulting from the need for (1) increased investment in information technology to keep pace with citizen expectations, (2) rapid technology advancements, (3) meeting federal program compliance mandates, and (4) addressing business continuity risks.

Controls within the systems used to process unemployment insurance claims are insufficient to prevent fraudulent unemployment insurance benefit payments. The Department of Labor and Training has identified a significant amount of fraudulent benefits paid to claimants. The State's system for payment of unemployment insurance claims and collection of

employment taxes is outdated.

Management focus, training and implementation resources have been insufficient to ensure that departments and agencies are assessing and documenting internal control consistent with management's overall responsibility for the adequacy of the design and operation of internal control. Internal controls safeguard public resources and support accurate financial reporting.

The State should commit to providing additional training and implementation materials to assist departments and agencies in documenting their internal control. An internal control assessment and documentation effort should be implemented.

The State can continue to improve its consideration of controls over functions performed by external parties by enhancing the use and documentation of Service Organization Control (SOC) reports. These improvements are necessary and consistent with management's responsibility for the overall adequacy of the design and operation of internal control.

The complexity of Medicaid program operations adds to the challenge of accurately accounting for all Medicaid financial activity within the State's financial statements. This complexity increases each year through new federal regulations, various State initiatives, and additional challenges resulting from the implementation of its RIBridges eligibility system. Medicaid is the State's single largest activity - representing nearly 35% of the annual budgeted outlays of the State's General Fund.

The Executive Office of Health and Human Services (EOHHS) authorized more than \$170 million in system payouts and manual disbursements in fiscal 2021, 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.



## State of Rhode Island – Fiscal 2021 – Single Audit Highlights

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) federally claimed expenditures are consistent with amounts recorded in the State's accounting system.

The State can improve controls over the use of the DBC Debt Manager system to support debt related accounting entries.

Procedures for recording transactions included in the government-wide financial statements can be improved.

A variance of \$2.5 million existed between the balance of the unexpended Coronavirus Relief Funds and the total federal award less cumulative expenditures through June 30, 2021. Reconciliations should also be completed to ensure eligible expenditures were not reimbursed from more than one funding source.

The State received an unprecedented amount of federal assistance to respond to the effects of the global pandemic. Certain costs were reimbursable under multiple programs and federal guidance was continually evolving which resulted in changing direction as to costs to be applied to specific federal awards.

There is an excessive volume of journal entries recorded within the centralized accounting system. This volume weakens controls over the appropriate authorization and classification of expenditures and limits transparency regarding the underlying primary expenditure transactions.

The processes followed for periodic physical inventories of capital assets and the evaluation of inventory results can be improved to ensure that accurate capital asset records are maintained.

Third-party insurance reimbursements for COVID testing totaling \$3.2 million at June 30, 2021 are pending (1) credit to the federal government for previously reimbursed costs or (2) recognition as general revenues. Other third-party insurance recoveries that are in process have not been recognized as receivables, revenue, or amounts due to the federal government.

We proposed multiple material audit adjustments during our audit of the State's fiscal 2021 financial statements.

Taxes receivable required adjustment at year end due to timing differences and the inclusion of some invalid amounts.

The State needs to (1) ensure its IT security policies and procedures are current and (2) complete assessments of compliance for all critical IT applications. Systems posing the most significant operational risk should 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.

The Department of Transportation's use of multiple systems to meet its operational and financial reporting objectives results in unnecessary complexity and control weaknesses since these systems were never designed to share data.

The resources necessary to effectively manage and administer the OPEB (retiree healthcare) System to ensure all 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.

Controls over the preparation of the Schedule of Expenditures of Federal Awards (SEFA) can be enhanced to ensure all program activity is accurately reported to the proper Assistance Listing number and amounts passed through to subrecipients are appropriately classified and reported.

Our report includes control deficiencies and material noncompliance reported by the independent auditors of component units included within the State's financial statements. Their accounting and control procedures are generally independent of the State's control procedures.

### *Federal Program Findings*

The federal Single Audit Act and Uniform Guidance implementing regulations require that the annual audit of governmental entities, expending more than \$750,000 of federal funds in a fiscal year, include federal compliance related audit procedures within the scope of their annual audit. Under the Uniform Guidance, the federal programs subject to audit are guided by the total expenditures for the program and risk assessment processes reflecting the results of prior audits and other risk factors impacting the likelihood of noncompliance.

The federal Office of Management and Budget Compliance Supplement assists auditors in identifying relevant and material compliance provisions for testing along with suggested audit procedures. Auditors are required to assess the control procedures that have been established to ensure compliance with federal requirements.

The federal programs tested as major programs (see following table) for the fiscal 2021 Single Audit were selected based on the methodology required in the Uniform Guidance. Our audits of major programs included procedures to (1) gain an understanding of controls established to ensure compliance and (2) test the effectiveness of those controls, and (3) assess compliance with requirements specific to each program.

For fiscal 2021, the federal funds received in response to the global pandemic were unprecedented in volume but also in the need to use the funds in an expedited manner to address the needs of the public health emergency. In some instances, this challenged existing control mechanisms due to changes or relaxation of eligibility requirements or stressed systems due to the volume and demand for services.

Additionally, multiple federal programs had overlapping objectives, which led to significant reallocation of costs as federal requirements were continually modified and the State's strategic COVID response efforts were implemented and refined. These factors had an impact on the controls to ensure compliance with federal requirements for most programs tested as major programs in fiscal 2021.

# State of Rhode Island – Fiscal 2021 – Single Audit Highlights

## 2021 Major Programs

Pandemic EBT Food Benefits (P-EBT)
Supplemental Nutrition Assistance Program (SNAP) Cluster
Child Nutrition Cluster
Home Investment Partnerships Program
Fish and Wildlife Cluster
Crime Victim Assistance
Unemployment Insurance
Airport Improvement Program
Highway Planning and Construction Cluster
Federal Transit Cluster
Coronavirus Relief Fund
Special Education (IDEA) Cluster
Education Stabilization Fund
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)
Temporary Assistance for Needy Families (TANF)
Child Care and Development Fund (CCDF) Cluster
Children’s Health Insurance Program (CHIP)
Medicaid Cluster
Disaster Grants – Public Assistance (Presidential Declared Disasters)
Presidential Declared Disaster Assistance to Individuals and Households – Other Needs
Research and Development Cluster

**Federal Funding Accountability and Transparency Act (FFATA)** – Controls over reporting of subawards to a federal transparency website can be enhanced to ensure accurate reporting in compliance with the requirements of FFATA.

**Federal benefit programs for healthcare, cash assistance and childcare** – Controls over the RIBridges eligibility and benefit system are inadequate to ensure that user access is limited to only authorized individuals and such access is consistent with each user’s specific scope of duties. Additionally, automated password change controls were not operational; and therefore, users were not required to change passwords at required intervals.

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.

**Child Nutrition Cluster** – The Department of Corrections needs to ensure that it complies with federal regulations governing the receipt, distribution and inventory of USDA-Donated Foods.

**Fish and Wildlife Cluster** – DEM’s subrecipient monitoring procedures need to be enhanced to ensure that funds are expended by subrecipients in compliance with applicable program laws and regulations.

DEM’s controls to ensure compliance with state matching requirements for the Fish and Wildlife Cluster need to be enhanced.

DEM’s Real Property Management procedures need to be enhanced to ensure that property acquired or constructed with Wildlife Restoration program funds shall continue to serve the purpose for which it was acquired or constructed in compliance with applicable program laws and regulations.

**Crime Victim Assistance** – Controls over federal reporting can be enhanced to ensure SF-425 Federal Financial Reports are accurate and adequately supported.

Subrecipient monitoring procedures should be enhanced to ensure that funds are expended by subrecipients in compliance with applicable program laws and regulations.

**Unemployment Insurance** – Controls over the processing of unemployment insurance claims were ineffective to sufficiently prevent fraudulent unemployment insurance benefit payments. DLT estimated approximately \$98 million of fraudulent claims have been paid and an additional \$550 million are considered suspected fraudulent claims.

Controls were also ineffective to ensure compliance with the documentation of self-employment income for the Pandemic Unemployment Assistance (PUA) program.

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 Unemployment Compensation (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’s Quality Assurance Program should be updated to reflect current testing procedures.

Department policies and procedures for the administration of engineering and design-related service contracts require written approval from FHWA.

**Federal Transit Cluster** – RIDOT’s controls are insufficient to ensure Federal Transit Cluster funds are expended or obligated within the applicable period of performance.

Multiple recommendations were also made to improve controls and enhance compliance by the Rhode Island Public Transit Authority in their use of Federal Transit Cluster funds.

**Coronavirus Relief Fund** – Controls over final centralized approval of expenditures funded by the Coronavirus Relief Fund (CRF) should be improved.



## State of Rhode Island – Fiscal 2021 – Single Audit Highlights

Questioned costs totaling \$508 thousand were identified for expenditures reimbursed from the Coronavirus Relief Fund program.

The State has not implemented sufficient overall subrecipient monitoring activities for Coronavirus Relief Fund amounts passed-through to subrecipients.

The State had insufficient controls to ensure expenditures were not reimbursed from more than one award under federal programs with similar pandemic response related objectives.

**Epidemiology and Laboratory Capacity** – RIDOH can enhance monitoring controls over time and effort reporting to ensure payroll cost allocations are adequately supported by employee timesheets.

RIDOH can enhance its monitoring of subrecipients to ensure compliance with federal program requirements.

**Temporary Assistance for Needy Families** – The State can improve compliance with TANF eligibility requirements specifically by ensuring consistent documentation of eligibility components within RIBridges.

**Child Care and Development Cluster** – RIBridges controls over eligibility determinations, income validation and calculation of required parent cost-sharing amounts require strengthening for the CCDF Cluster programs.

Matching expenditures reported on the CCDF ACF-696 report for the 2021 grant period were inconsistent with data included in the RIFANS accounting system.

Controls over the monitoring of background check requirements for licensed childcare centers requires strengthening.

**Medicaid and Children's Health Insurance Programs** – The State did not materially comply with CHIP eligibility requirements during fiscal 2021. RIBridges is not fully evaluating all eligibility criteria to ensure compliance with federal regulations.

The State is not currently in compliance with federal regulations requiring States to implement certain program integrity safeguards when administering Medicaid managed care programs.

The State is not currently in compliance with federal regulations for the screening, enrollment, and revalidation of providers used in managed care organization (MCO) networks. Although many of these providers are also enrolled as Medical Assistance providers, the new regulations mandate that States screen, enroll, and periodically revalidate all managed care network providers.

Capitation payments to MCOs represent approximately 64% of Medicaid benefit expenditures. EOHHS needs to improve controls over managed care financial activity to ensure compliance with allowable cost principles for related program expenditures.

Controls can be improved to timely terminate Medicaid eligibility for deceased individuals to prevent continued payment of managed care capitation after death. Payments totaling \$942 thousand were made for individuals who had been deceased for more than 90 days. The federal share of these questioned costs totaled \$681 thousand.

Controls should be improved over the quarterly reporting of expenditures for the Medicaid and CHIP programs.

The State should improve controls to ensure that its managed care organizations (MCOs) are effectively identifying TPL insurance coverage for Medicaid recipients and cost avoiding for claims covered by other insurance. Medicaid should be the payor of last resort when processing medical claims for individuals covered by other insurance.

The State's current practices for inpatient hospital and long-term care facility rate setting do not fully comply with its State plan provisions requiring an annual review of inpatient hospital rate components and nursing facility audit requirements. Controls to ensure NCCI claims processing edits are functioning over Medicaid activity require improvement to ensure compliance with federal regulations.

Certain psychiatric residential treatment facility (PRTF) services provided to children in the State's custody have been charged to Medicaid in fiscal 2021 in accordance with a methodology that is pending State Plan Approval. Controls over other services provided to children in the State's custody would be improved if processed through the Medicaid Management Information System (MMIS).

**Disaster Grants – Public Assistance** – RIEMA can improve its reporting function. Required federal financial reports for fiscal 2021 were not properly supported by the State accounting system.

**Presidential Declared Disaster Assistance to Individuals and Households** – Supplemental unemployment benefits were paid to claimants that did not meet the minimum benefit threshold required for eligibility. Questioned costs totaling \$6.3 million were identified.

**Corrective Action Plans (Section E)**, prepared by the State's management, and a **Summary Schedule of Prior Audit Findings (Section F)** reports the status of findings from prior audits.

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## Financial Statements



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# Office of the Auditor General

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## **INDEPENDENT AUDITOR'S REPORT**

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

### **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 (the State), as of and for the year ended June 30, 2021, 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 less than 1% of the assets and deferred outflows and the revenues of the governmental activities and less than 1% of the assets and the revenues of the aggregate remaining fund information;
- the Convention Center Authority, a major fund, which represents 37% of the assets and deferred outflows and less than 1% of the revenues of the business-type activities;
- the Ocean State Investment Pool - an investment trust fund, and the HealthSource RI, Rhode Island Higher Education Savings, and ABLE private-purpose trust funds, which collectively represent 29% of the assets and 22% 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, 2021, 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 Note 10 – *Restatements – Net Position and Fund Balances* – the State restated certain beginning fund balances and net position which included the effects of the State's implementation of GASB Statement No. 84 – *Fiduciary Activities* during fiscal 2021.

As described in Note 17 – *Contingencies* – fraudulent unemployment benefit claims increased significantly due to unemployment resulting from the global pandemic and new federally funded benefit programs implemented to meet those needs. The State has identified a substantial amount of unemployment benefits paid in fiscal years 2020 and 2021 as fraudulent.

As described in Note 2 – *Cash, Cash Equivalents, Investments, and Funds in Trust* – the fair values of certain investments included within the fiduciary funds - pension and other employee benefit trusts, which represent 29% of the assets of the pension and other employee benefit trusts and 19% 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*

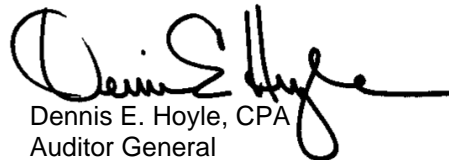
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the 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* (Section B) 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

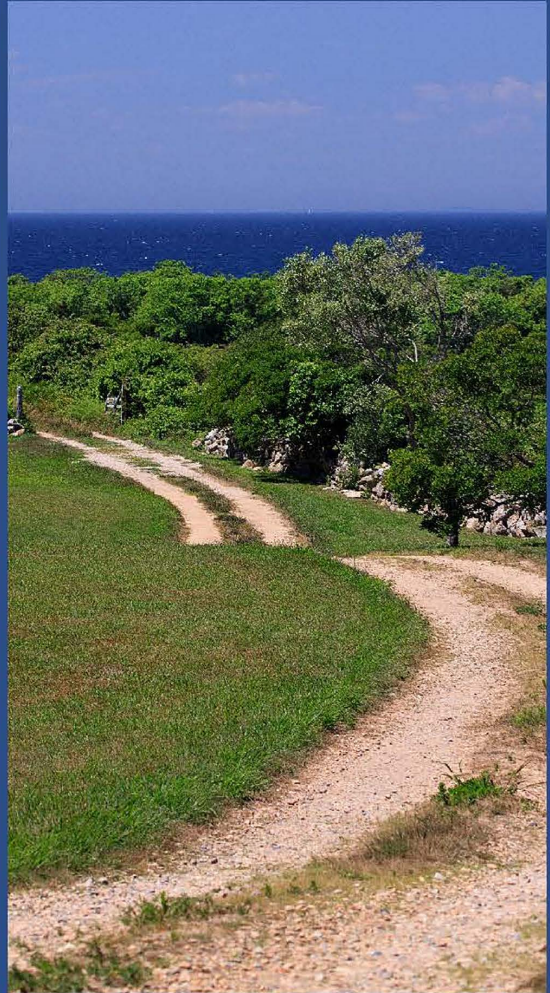
In accordance with *Government Auditing Standards*, we have issued our report dated January 28, 2022 and June 28, 2022 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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

January 28, 2022 except for the *Schedule of Expenditures of Federal Awards* (Section B) as to which the date is June 28, 2022.

# Management's Discussion and Analysis



**State of Rhode Island**  
Fiscal Year Ended  
June 30, 2021



As managers of the State financial records, we offer readers of the State of Rhode Island's Annual Comprehensive Financial Report (ACFR) this narrative overview and analysis of the financial activities of the State for the fiscal year ended June 30, 2021. We present this information in conjunction with the information included with our letter of transmittal, which can be found preceding this narrative, and with the State's financial statements which follow. To gain a thorough understanding of the State financial condition, we encourage readers to consider the information presented here in conjunction with the financial statements, notes and required supplemental information which follow this narrative document. All amounts unless otherwise indicated are expressed in thousands.

## Highlighted Impacts of the Pandemic

- General Fund federal grant revenue increased \$1.5 billion compared to fiscal 2020, reflecting increased federal support to address the effects of the pandemic.
- A significant year-over-year spending increase of \$600.1 million within the Health and Human Services function is primarily attributable to the significant inflow of federal funds to address the overwhelming need for supplemental nutritional benefits, child care benefits, vaccine and testing supplies, site operations, and extended Medicaid supported expenses.
- Certain pandemic related costs totaling \$212.7 million were supported by general revenue pending reimbursement by FEMA.

## Financial Highlights - Primary Government

### Government-wide Financial Statements

- **Net Position:** The total assets plus deferred outflows of resources of the State were greater than total liabilities plus deferred inflows of resources at June 30, 2021 by \$342.9 million. This amount is presented as "net position" on the Statement of Net Position for the Total Primary Government. Of this amount \$0.9 billion was reported as restricted net position, \$4.0 billion as net investment in capital assets and \$4.6 billion was reported as a deficit unrestricted net position.
- **Changes in Net Position:** The net increase to the primary government net position of \$659.6 million, was attributable to an increase in governmental activities of \$787.4 million, offset by a decrease to net position of \$127.8 million during the fiscal year for business-type activities. The increase to governmental activities was largely due to the positive operating surplus of \$509.3 million within the General Fund. The decrease to the business-type activities was primarily due to the Employment Security Fund operating at a \$134.3 million deficit during fiscal 2021.

### Governmental Funds

- As of the close of the current fiscal year, governmental funds reported a combined ending fund balance of \$1.9 billion, an increase of \$587.3 million compared with the restated previous fiscal year.
- As of June 30, 2021, the General Fund reported an ending fund balance of \$897.3 million, an increase of \$509.3 million (131.3%) as compared to the prior year restated fund balance.
- Total General Fund expenditures were \$1.3 billion greater than fiscal 2020 due to greater spending across a number of categories the most significant of which are discussed below.
  - The year-over-year increase of approximately \$563.9 million to the General Government function is mostly attributable to a number of new programmatic initiatives to assist individuals and businesses impacted by the pandemic. These programs, mostly funded with pandemic-related federal assistance, provided relief through supplemental



unemployment benefits (\$250 million), payments to municipalities (\$130 million), small business (\$87 million) and various others.

- The significant year-over-year increase of \$600.1 million in Health and Human Services function spending is attributable to the continued impact of the pandemic on the State's social services programs. The number of individuals covered by Medicaid continued to increase throughout fiscal 2021 resulting in approximately \$190 million in additional spending. Other social service programs that experienced additional spending to address specific pandemic related challenges included child care benefits (\$20 million), additional provider relief to cover additional compensation to workers in health fields significantly impacted by the pandemic (\$40 million), and expanded Supplemental Nutrition Assistance Program benefits (\$100 million). The Department of Health (DOH), in addition, to expanding pandemic related testing during fiscal 2021, also experienced increased expenditures for Coronavirus vaccine administration. DOH's expenditures increased by more than \$250 million in fiscal 2021, most of which related directly to pandemic response activities.

### **Proprietary Funds**

- Rhode Island Lottery transferred \$301.8 million to the General Fund to support general revenue expenditures during the fiscal year, an increase of \$17.9 million in comparison with the previous fiscal year. However, the transferred amount remained significantly reduced from the pre-pandemic fiscal 2019 transfer of \$397.3 million.
- Unemployment benefits processed through the Employment Security Fund totaled \$2.1 billion, an increase of approximately \$700 million over fiscal 2020. The benefit increase was attributable to persistent unemployment during the pandemic and supplemental benefits for the unemployed funded by federal grants. Federal grants funded \$1.7 billion of the benefits paid in fiscal 2021, an increase of \$700 million over fiscal 2020. The Employment Security Fund ended the fiscal year with a net position of \$231.4 million, a decrease of \$134.3 million from the prior fiscal year. This decrease approximates the reduction of the Employment Security Trust Fund for fiscal 2021 which funded the benefits for unemployed workers not covered by specific pandemic related unemployment assistance during the fiscal year.
- The Rhode Island Convention Center Authority ended the fiscal year with a deficit net position of \$31.4 million. This was an increase of \$7.0 million to the net position when compared with the prior year restated balance. The Authority has historically had a negative net position. The amount of debt related to capital assets has exceeded the net book value of the capital assets and the depreciable life of the assets are shorter than the related debt repayment terms which promotes this negative position.

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## Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the State of Rhode Island's basic financial statements. The State's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the State through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the State of Rhode Island.

### Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the State's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the State's financial status as a whole.

The two government-wide statements report the State's net position and how it has changed. Net position is the difference between the total of the State's assets and deferred outflows of resources and the total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the State's financial condition.

- 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 indicating 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 for some items are reported in this statement that will not result in cash flows until future fiscal periods - for example, uncollected taxes and earned but unused vacation leave. Additionally, this statement presents a comparison between direct expenses and program revenues for each function of the government.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) discretely presented component units.

- The governmental activities include most State basic services such as public safety, parks and recreation, and general administration. Taxes, intergovernmental transfers, and federal grants finance most of these activities.
- The business-type activities are those that the State charges customers to provide. These include the operations of the Rhode Island Lottery, Rhode Island Convention Center Authority, and the Employment Security Trust Fund.
- The discretely presented 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.

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## Fund Financial Statements

The fund financial statements provide a more detailed look at the State's most significant activities. 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 of Rhode Island uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, (General Laws). All of the funds of the State can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. These are explained below:

- **Governmental funds:** The majority of State basic services are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities on the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus is 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 expended in the near future to finance the State's programs.

Governmental funds include the general fund, special revenue, capital projects, debt service, and permanent funds. Generally accepted accounting principles (GAAP) designate 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 major fund is presented in a separate column on 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 other supplementary information section of this ACFR.

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.

- **Proprietary funds:** Services for which the State charges customers a fee are generally reported as proprietary funds. The State maintains two categories of proprietary funds - enterprise funds and internal service funds (ISFs). 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 (ISFs) are reported as governmental activities on the government-wide statements, since the services they provide predominantly benefit governmental activities. The (ISFs) are reported within the basic proprietary fund financial statements in a single combined column. Individual fund data is provided in the form of combining statements and can be found within the supplementary information section of this ACFR.
- **Fiduciary funds:** Resources accounted for as fiduciary funds are 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 custodial funds, are reported using accrual accounting. Individual fund data for fiduciary funds can be found at the supplementary information section of this ACFR.

## 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 on 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 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

This section includes the combining financial statements for nonmajor governmental funds, internal service funds and fiduciary funds. It can be found immediately following the Required Supplementary Information section.

## Government-Wide Financial Analysis

### Net Position

Net position may serve as a useful indicator of a government's financial position. The State's combined net position for governmental and business-type activities totaled \$342.9 million at the end of fiscal 2021, compared to a deficit of \$316.7 million for the restated prior fiscal year. Governmental activities reported an unrestricted deficit net position of \$4,595.4 million.

A portion of the State's net position reflects its investment in capital assets less any related outstanding debt that was needed to acquire or construct the assets. The State uses these capital assets such as land, buildings, equipment and infrastructure 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.

Additionally, a portion of the State's net position represents resources that are subject to external use restrictions.

State of Rhode Island Net Position as of June 30, 2021 and 2020  
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2021	2020*	2021	2020*	2021	2020*
Current and other assets	\$ 4,639,013	\$ 3,601,750	\$ 286,594	\$ 410,974	\$ 4,925,607	\$ 4,012,724
Capital assets	4,957,871	4,788,465	157,631	169,746	5,115,502	4,958,211
Total assets	9,596,884	8,390,215	444,225	580,720	10,041,109	8,970,935
Deferred outflows of resources	712,407	722,392	11,697	12,683	724,104	735,075
Long-term liabilities outstanding	6,944,261	7,065,884	208,570	223,803	7,152,831	7,289,687
Other liabilities	2,927,800	2,492,893	66,642	61,675	2,994,442	2,554,568
Total liabilities	9,872,061	9,558,777	275,212	285,478	10,147,273	9,844,255
Deferred inflows of resources	273,477	177,487	1,573	968	275,050	178,455
Net position (deficit):						
Net investment in capital assets	4,049,759	3,845,461	(29,662)	(31,295)	4,020,097	3,814,166
Restricted	709,429	460,163	231,685	366,561	941,114	826,724
Unrestricted	(4,595,435)	(4,929,281)	(22,886)	(28,309)	(4,618,321)	(4,957,590)
Total net position (deficit)	\$ 163,753	\$ (623,657)	\$ 179,137	\$ 306,957	\$ 342,890	\$ (316,700)

\*Restated

As indicated above, the State reported a deficit balance in unrestricted net position of \$4.6 billion as of June 30, 2021. Several factors, which are discussed below, contributed to this deficit.

As required by generally accepted accounting principles (GAAP) the State recognizes the net pension liability for the pension plans it has funding responsibility. In addition, the State has recognized the net other post-employment benefit (OPEB) liability or asset for the retiree health care plans for which it has funding responsibility. Recognition of these liabilities has had a significant adverse impact to unrestricted net position. At June 30, 2021 the net pension liability related to governmental activities was \$3.7 billion and the net pension liability related to business-type activities was \$21.7 million. In addition, the net OPEB liability related to governmental activities was \$341.9 million and the net OPEB liability related to business-type activities was \$3.4 million.

Another significant contributing factor creating the deficit to unrestricted net position is the 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 reported as capital assets of those 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;
- Facility projects funded through Rhode Island Health and Educational Building Corporation (RIHEBC); and
- Historical preservation initiatives designed to protect and preserve historical buildings as well as to provide funding for cultural facilities.

Lastly, the State also has the following non-capital related debt outstanding:

- 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, the Consent Decree and Final Judgment. The bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC. Other monies of the TSFC do not constitute a general, legal, or moral obligation to 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, 2021 approximately \$580.9 million of principal and \$137.0 million of accreted interest are included in the State calculation of debt.
- Historic Tax Credit Bonds - The R.I. Commerce Corporation (RICC), on behalf of the State, issued revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation to 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 appropriations 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, 2021, approximately \$88.5 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 sometimes used to benefit certain entities outside of the primary government, 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 COPS is subject to and dependent upon annual General Assembly appropriations. As of June 30, 2021, approximately \$137.4 million of net obligations are outstanding.

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

## Changes in Net Position

### Governmental Activities

The State's overall net position related to governmental activities increased by almost \$787.4 million for fiscal 2021.

Total revenues and transfers of \$10.3 billion increased by \$1.91 billion compared to fiscal 2020. This increase to revenue primarily resulted from a significant influx of federal assistance (reported as operating grants) to help the State respond to the pandemic. Tax revenues increased by a total of \$450.6 million during fiscal 2021 with personal income and sales and use taxes increasing \$209.5 million and \$193.6 million respectively, over the prior year.

The State's expenses, which cover a wide range of services, increased by \$1.2 billion. The most notable increases were directly related to the State's response to the pandemic and were primarily categorized as General Government or Health and Human Services.



The increase in Health and Human Services expenses is attributable to two factors. The Department of Human Services saw increased spending of over \$100 million, primarily due to additional federal funding for the Supplemental Nutrition Assistance Program. The Rhode Island Department of Health experienced increased spending of \$283.7 million primarily for pandemic related activities such as laboratory testing, contact tracing and vaccine supplies.

General Government expenses increased by approximately \$485.6 million during fiscal 2021 over the prior year. The increase is largely attributable to a number of programs associated with the recovery from the global pandemic, examples include supplemental unemployment benefits (\$250 million), payments to municipalities (\$130 million) and small businesses (\$87 million).

### **Business-Type Activities**

- The Employment Security Fund net position decreased as a result of benefits paid significantly exceeding premium revenue. Benefits paid from the fund totaled \$2.1 billion and total operating revenue were \$1.9 billion, which included \$1.7 billion of federal grants to fund these benefits.
- The RI Lottery's transfer to the General Fund was up 6.3% compared to fiscal 2020. However, Lottery revenue remains lower than pre-pandemic levels due to the operational restrictions at the State licensed casinos, i.e., closure of the casinos from November 29, 2020 to December 21, 2020 and a reduction of player seating capacity of 50% the rest of the fiscal year.

Fiscal Year Ended June 30, 2021

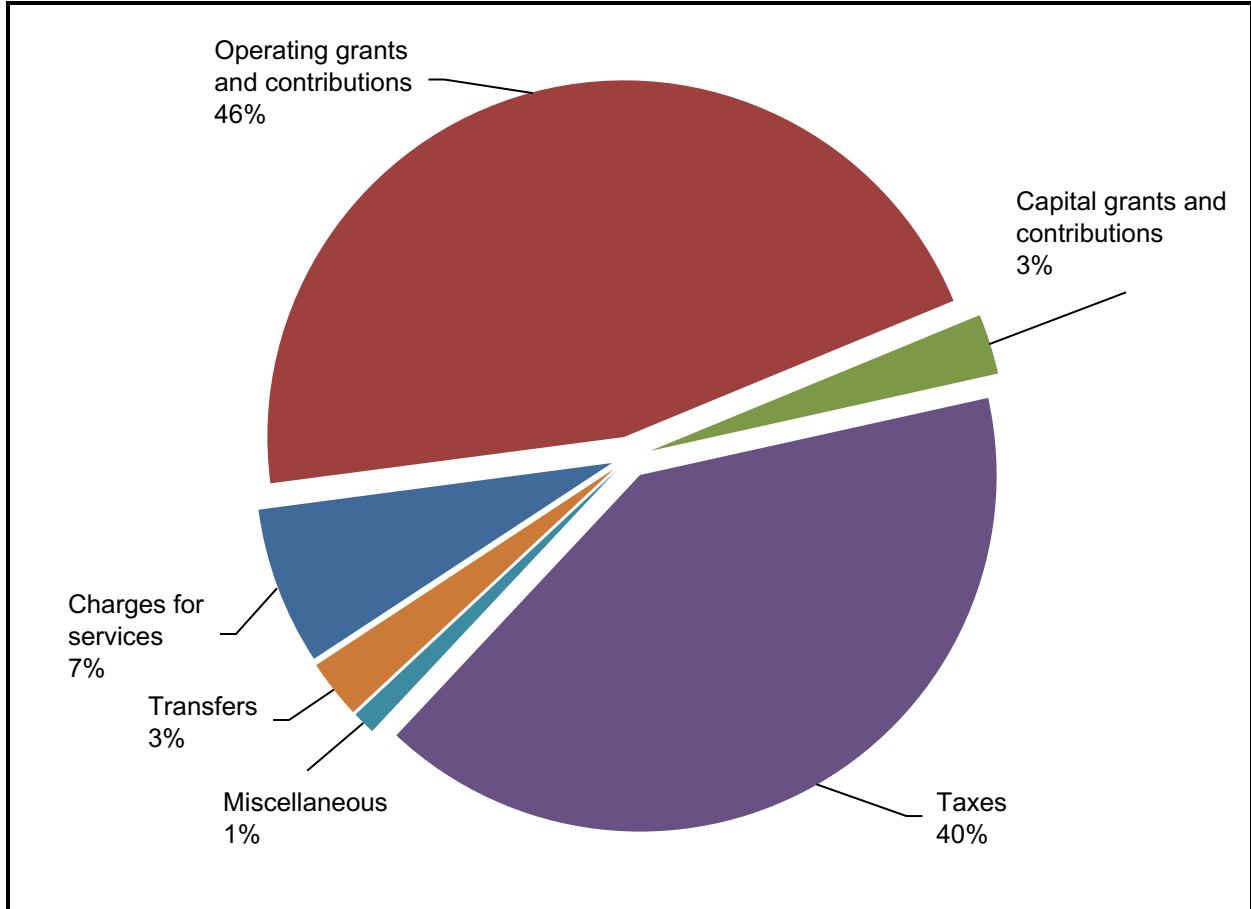
A more detailed analysis of changes in revenues and program expenses for both governmental activities and business-type activities is as follows:

State of Rhode Island Changes in Net Position  
For the Fiscal Years Ended June 30, 2021 and 2020  
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program revenues:						
Charges for services	\$ 735,112	\$ 797,486	\$ 1,305,481	\$ 1,113,028	\$ 2,040,593	\$ 1,910,514
Operating grants and contributions	4,697,836	3,159,368	1,693,345	1,010,408	6,391,181	4,169,776
Capital grants and contributions	282,976	288,421	—	—	282,976	288,421
General revenues:						
Taxes	4,143,930	3,693,329	—	—	4,143,930	3,693,329
Interest and investment earnings	3,110	12,884	156	764	3,266	13,648
Miscellaneous	109,667	142,310	15,271	14,148	124,938	156,458
Gain on sale of capital assets	8,326	—	—	—	8,326	—
Total revenues	<u>9,980,957</u>	<u>8,093,798</u>	<u>3,014,253</u>	<u>2,138,348</u>	<u>12,995,210</u>	<u>10,232,146</u>
Program expenses:						
General government	1,399,797	914,244	—	—	1,399,797	914,244
Health and human services	4,959,473	4,361,236	—	—	4,959,473	4,361,236
Education	1,929,835	1,802,009	—	—	1,929,835	1,802,009
Public safety	610,263	586,841	—	—	610,263	586,841
Natural resources	96,158	103,506	—	—	96,158	103,506
Transportation	375,266	365,022	—	—	375,266	365,022
Interest and other charges	98,595	102,687	—	—	98,595	102,687
Lottery	—	—	773,867	600,854	773,867	600,854
Convention Center	—	—	33,499	46,544	33,499	46,544
Employment Security	—	—	2,058,867	1,424,693	2,058,867	1,424,693
Total expenses	<u>9,469,387</u>	<u>8,235,545</u>	<u>2,866,233</u>	<u>2,072,091</u>	<u>12,335,620</u>	<u>10,307,636</u>
Excess (deficiency) before transfers	511,570	(141,747)	148,020	66,257	659,590	(75,490)
Transfers (net)	<u>275,840</u>	<u>251,466</u>	<u>(275,840)</u>	<u>(251,466)</u>	<u>—</u>	<u>—</u>
Change in net position	787,410	109,719	(127,820)	(185,209)	659,590	(75,490)
Net position (deficit) - Beginning	(609,814)	(719,533)	306,186	491,395	(303,628)	(228,138)
Cumulative effect of prior period adjustments	<u>(13,843)</u>	<u>—</u>	<u>771</u>	<u>—</u>	<u>(13,072)</u>	<u>—</u>
Net position (deficit) - Beginning, as restated	<u>(623,657)</u>	<u>(719,533)</u>	<u>306,957</u>	<u>491,395</u>	<u>(316,700)</u>	<u>(228,138)</u>
Net position (deficit) - Ending	<u>\$ 163,753</u>	<u>\$ (609,814)</u>	<u>\$ 179,137</u>	<u>\$ 306,186</u>	<u>\$ 342,890</u>	<u>\$ (303,628)</u>

Chart 1 depicts the State's sources of revenues from Governmental Activities for the fiscal year ended June 30, 2021.

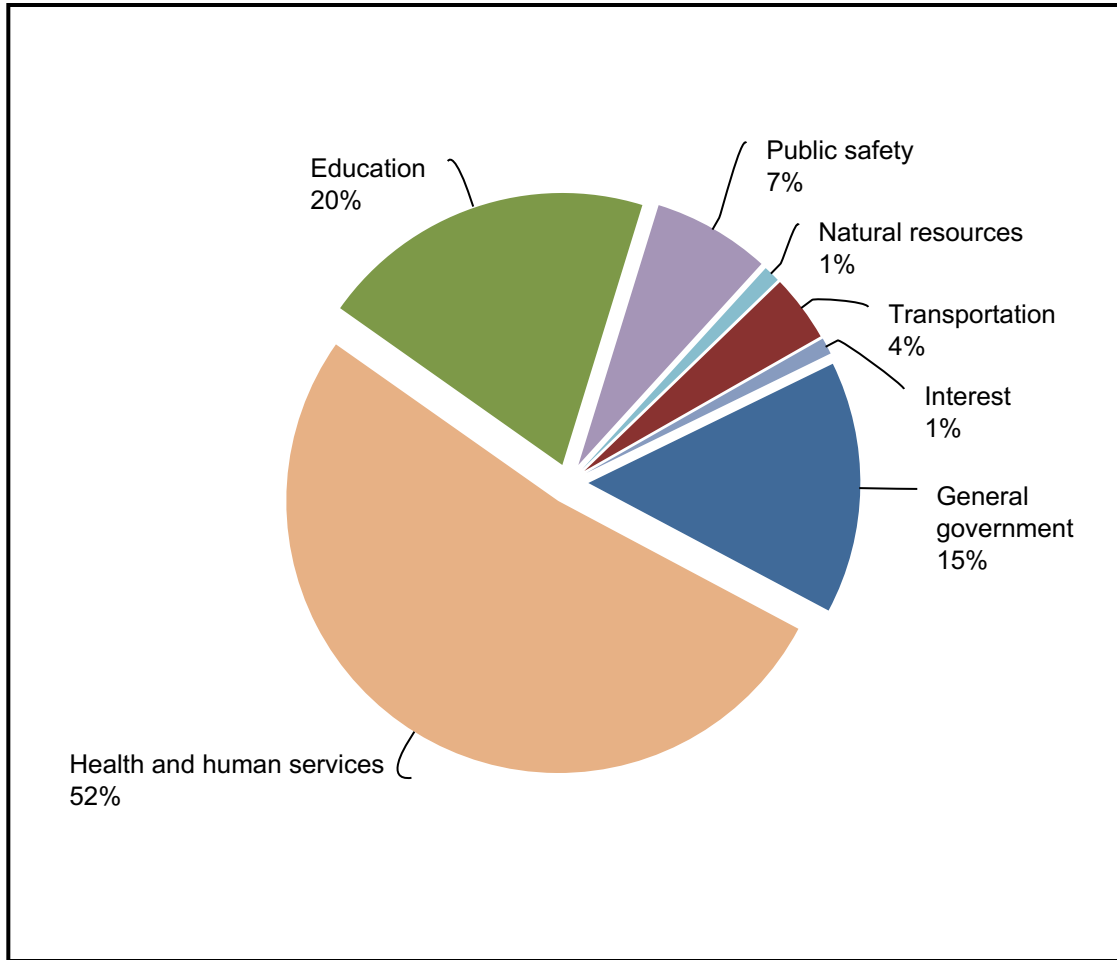
Chart 1 - Revenues and Transfers - Governmental Activities



The relative mix of revenue and transfers by source for governmental activities remained fairly consistent during fiscal 2021 versus the prior fiscal year. Taxes continued to represent one of the largest sources of revenue at 40% of the total. However, operating grants and contributions represented the greatest revenue source in fiscal year 2021 at 46%. The proportion of total revenue derived from operating grants and contributions increased in fiscal 2021 due to the influx of federal assistance as a result of the pandemic.

Chart 2 depicts the purposes for which program expenses related to Governmental Activities were expended during the fiscal year ended June 30, 2021.

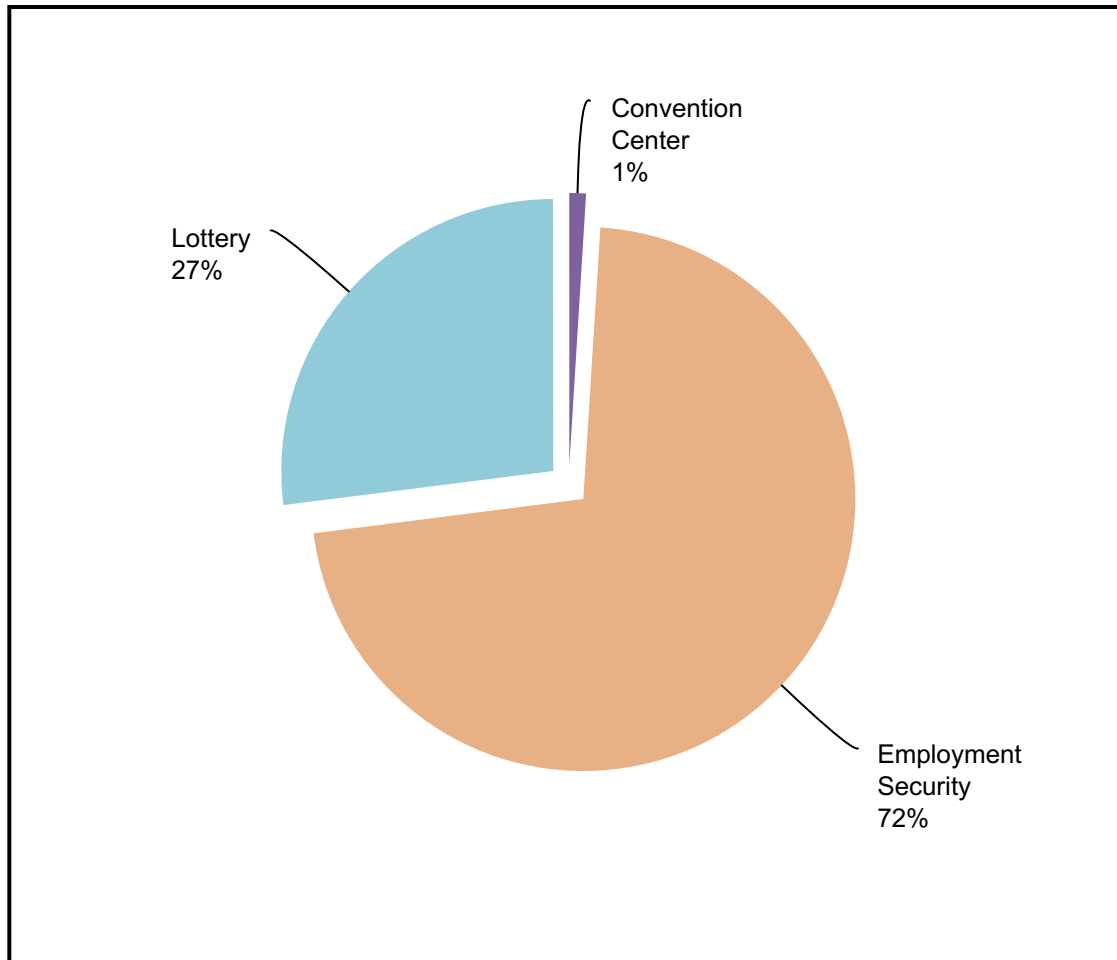
**Chart 2 - Program Expenses - Governmental Activities**



The relative mix of program expenses for governmental activities remained about the same in fiscal 2021 as for the prior fiscal year. There was an increase to General Government services from 11% to 15% in 2021 consistent with an increase of overall expenditures incurred in response to the COVID-19 public health emergency.

**Chart 3** depicts the program expenses related to Business Type Activities during the fiscal year ended June 30, 2021.

**Chart 3 - Program Expenses - Business Type Activities**



There was an increase to the Employment Security expenses due to the increased demand for unemployment benefits resulting from continuing negative economic effects from the COVID-19 pandemic.

## Financial Analysis 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 about near-term inflows, outflows, and balances of spendable resources. Such information is useful when assessing the State financing requirements. At the end of the current fiscal year, the governmental funds reported a combined ending fund balance of approximately \$1.9 billion, an increase of \$587.3 million from June 30, 2020. A breakdown of the components follows (expressed in thousands):

	2021	2020 (restated)	2021 vs 2020 Change	Percent
Governmental Funds				
Nonspendable	\$ 1,712	\$ 8,092	\$ (6,380)	(78.8)%
Restricted	1,204,880	984,317	220,563	22.4 %
Unrestricted				
Committed	50,403	57,907	(7,504)	(13.0)%
Assigned	292,564	6,851	285,713	4,170.4 %
Unassigned	319,425	224,550	94,875	42.3 %
Total	<u>\$ 1,868,984</u>	<u>\$ 1,281,717</u>	<u>\$ 587,267</u>	45.8 %

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 about how specific funds may 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 stated 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 - within the General Fund, the residual classification for amounts not contained in the other classifications. Other than the General Fund, 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:

- Restricted - net increase of \$220.6 million is primarily related to unspent proceeds legislatively approved for various capitol projects, including \$50 million for a new ERP system. The increase was offset to an extent by reductions in prior year GARVEE bond proceeds.

- Committed - net decrease of \$7.5 million is primarily attributable to a decrease 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.
- Assigned - net increase of \$285.7 million is primarily resulted from an increase in the amount of assigned fund balance allocated to fund the subsequent year's budget.
- Unassigned - net increase of \$94.9 million is primarily was due to more favorable actual operating results in fiscal 2021 than were expected when the fiscal 2021 budget was enacted.

### General Fund

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

	2021	2020 (restated)	2021 vs 2020 Change	Percent
Nonspendable	\$ 1,538	\$ 7,918	\$ (6,380)	(80.6)%
Restricted	276,172	141,229	134,943	95.5 %
Unrestricted				
Committed	8,135	6,791	1,344	19.8 %
Assigned	291,985	6,851	285,134	4,161.9 %
Unassigned	319,425	225,138	94,287	41.9 %
Total	<u>\$ 897,255</u>	<u>\$ 387,927</u>	<u>\$ 509,328</u>	131.3 %

Revenues and other sources of the General Fund totaled \$9.5 billion in fiscal 2021, an increase of \$1.85 billion or 24.3% from the previous year. The revenues from various sources and the change from the previous year are shown in the following table (expressed in thousands):

	2021	2020	Increase (decrease) from 2020	
			Amount	Percent
Revenues				
Taxes:				
Personal income	\$ 1,606,554	\$ 1,398,121	\$ 208,433	14.9 %
Sales and use	1,524,014	1,326,149	197,865	14.9 %
General business	496,345	463,786	32,559	7.0 %
Other	61,165	70,037	(8,872)	(12.7)%
Subtotal	<u>3,688,078</u>	<u>3,258,093</u>	<u>429,985</u>	13.2 %
Federal grants	4,649,167	3,128,124	1,521,043	48.6 %
Restricted revenues	305,523	349,753	(44,230)	(12.6)%
Licenses, fines, sales, and services	378,662	406,489	(27,827)	(6.8)%
Other general revenues	66,626	105,916	(39,290)	(37.1)%
Subtotal	<u>5,399,978</u>	<u>3,990,282</u>	<u>1,409,696</u>	35.3 %
Total revenues	<u>9,088,056</u>	<u>7,248,375</u>	<u>1,839,681</u>	25.4 %
Other sources				
Transfer from Lottery	301,803	283,871	17,932	6.3 %
Other transfers	65,941	75,627	(9,686)	(12.8)%
Total revenues and other sources	<u>\$ 9,455,800</u>	<u>\$ 7,607,873</u>	<u>\$ 1,847,927</u>	24.3 %



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## Significant Drivers of Revenue

Fiscal 2021 personal income taxes increased 14.9% from fiscal 2020 levels as pandemic restrictions eased. Personal income tax withholding payments rose to \$1.3 billion in fiscal 2021, up 4.7% compared to fiscal 2020. The growth in withholding payments in fiscal years 2021 and 2020 were likely enhanced by the \$600 Pandemic Unemployment Compensation payments made to unemployment insurance recipients; the Federal Emergency Management Agency's \$300 Lost Wages Supplemental Payment Assistance payments made to unemployment recipients during the weeks August 1, 2020 through September 5, 2020; and the Federal Emergency Management Agency's \$300 Lost Wages Supplemental Payment Assistance payments made to unemployment recipients during January – May 2021.

The State's unemployment rate increased to 8.4% in fiscal 2021, according to IHS Markit, up 2.1 percentage points from the 6.2% rate realized in fiscal 2020. The fiscal 2021 unemployment rate is the highest fiscal year unemployment rate since 2014. Nominal personal income growth eased slightly to a still strong 5.6% in fiscal 2021 from 6.5% growth in fiscal 2020 which was boosted by growth in transfer payments as a result of not only Pandemic Unemployment Assistance and Pandemic Emergency Unemployment Compensation payments but also the \$1,200 per person CARES Act Economic Impact Payments (EIP). General sales and use tax revenues posted an increase of 14.9% in fiscal 2021 over fiscal 2020. Fiscal 2021 use tax payments paid at the time of registration of a new motor vehicle increased by 34.8%, up from a negative 5.6% rate of growth between fiscal 2019 and fiscal 2020. The strong increase in fiscal 2021 sales and use tax was likely attributable to a shift in consumption expenditures from in-person taxable sales to remote (on-line) taxable sales and a rise in the purchase of taxable items associated with home improvement projects.

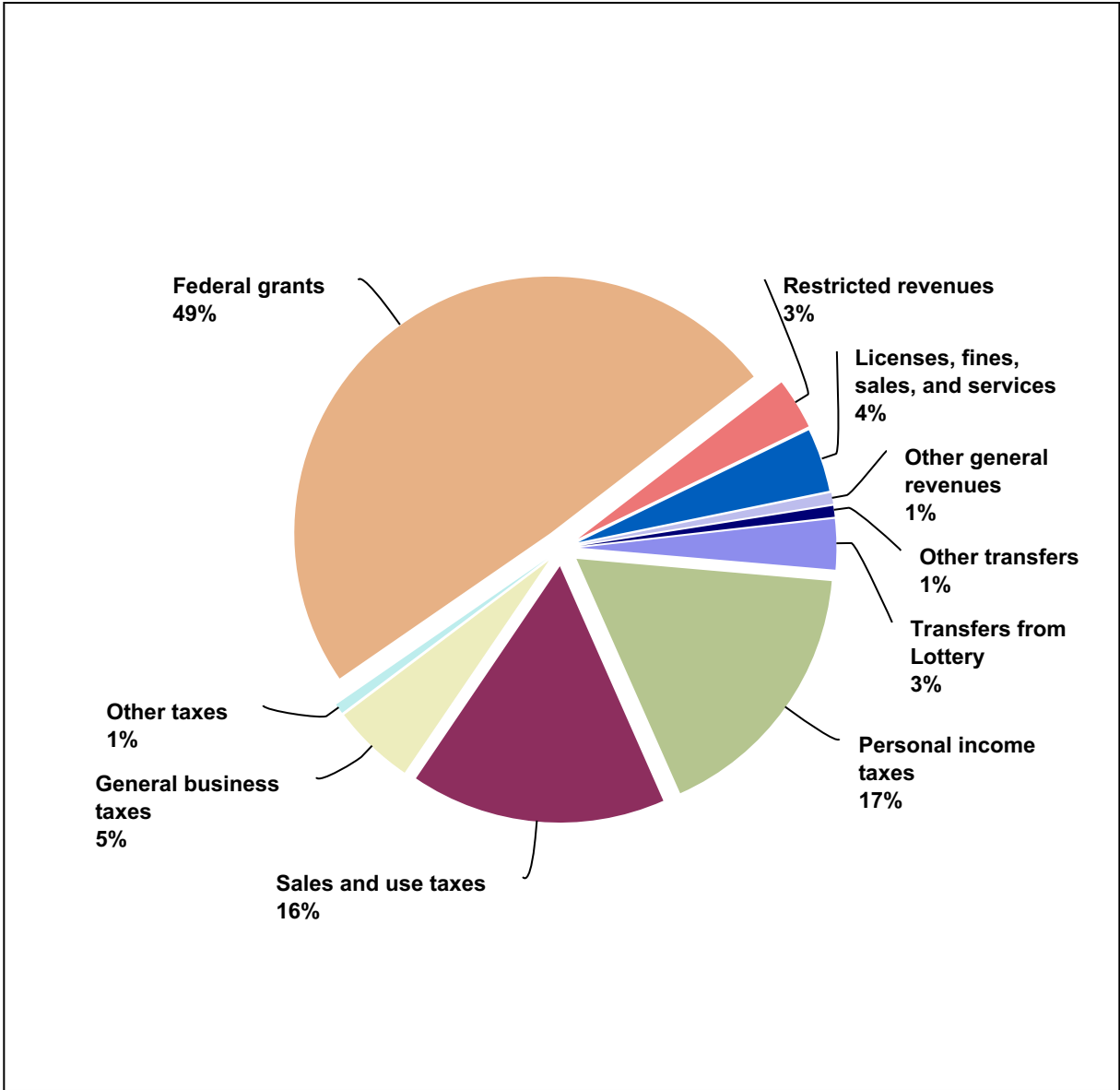
General business tax revenues increased by 7.0% in fiscal 2021, driven by large gains in business corporation taxes, of 35.9%. This increase was offset by year-over-year decreases to financial institutions tax of 21.9%, public utilities gross earnings tax of 13.6% and the health care provider assessment of 17.6%.

Other taxes declined by 12.7% from fiscal 2020. The decrease is attributable to estate and transfer tax revenues, which declined \$12.3 million, or 22.3%, from fiscal 2020. Realty transfer tax revenues rose 27.6% over fiscal 2020 levels, indicating ongoing strength in the housing market.

Finally, the R.I. Lottery's transfer to the General Fund was up 6.3% for fiscal 2021 compared to fiscal 2020. The Casinos were mostly operational during fiscal year 2021.

Chart 4 illustrates the fiscal 2021 General Fund Revenue and transfers.

Chart 4 - Revenues and Other Sources - General Fund



Expenditures and transfers out totaled \$8.95 billion in fiscal 2021, an increase of \$1.37 billion, or 18.07%, 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):

	2021	2020	Increase (decrease) from 2020	
			Amount	Percent
General government	\$ 1,141,313	\$ 577,417	\$ 563,896	97.66 %
Health and human services	4,925,442	4,325,361	600,081	13.87 %
Education	1,839,019	1,662,174	176,845	10.64 %
Public safety	587,243	578,721	8,522	1.47 %
Natural resources	85,374	83,703	1,671	2.00 %
Debt Service:				
Principal	139,023	143,503	(4,480)	(3.12)%
Interest	64,095	62,348	1,747	2.80 %
Total expenditures	8,781,509	7,433,227	1,348,282	18.14 %
Transfers out	164,963	143,909	21,054	14.63 %
Total expenditures and transfers out	<u>\$ 8,946,472</u>	<u>\$ 7,577,136</u>	<u>\$ 1,369,336</u>	18.07 %

### Significant Drivers of Expenditures

The year-over-year increase of approximately \$563.9 million to the General Government function is primarily attributable to significant inflow of federal stimulus grants specifically targeted to address the impact of the COVID-19 pandemic. The federal money addressed a wide range of governmental operations, such as the administrative costs of various federal pandemic unemployment assistance programs, enhanced unemployment benefits, support to Rhode Island small businesses, additional aid to Rhode Island municipalities via the Municipal COVID Relief Fund, workforce development programs, and various housing and rental support programs.

The year-over-year increase of \$600.1 million to the Health and Human Services function is attributable to several distinct factors, including an increase of approximately \$186.9 million attributable to the significant inflow of federal grants targeted to address the impact of the COVID-19 pandemic. Of this total, an increase of \$110.4 million was evidenced in the Department of Health (RIDOH) for various direct pandemic management activities, such as community mitigation, testing administration, laboratory processing, contact tracing, and vaccination programming. It must also be noted that RIDOH experienced a highly atypical year-over-year expenditure increase of \$168.1 million, separate and apart from the increase generated by the major federal COVID response grants. This increase is largely attributable to expenditures supported by general revenue pending FEMA approval.

In addition, expenditures within the Medical Assistance (Medicaid) program at the Executive Office of Health and Human Services increased by \$253.5 million. Though it has no effect on total program expenses, the Medicaid program benefited from heightened federal financial participation via a full-year of the FFCRA-enhanced Federal Medical Assistance Percentage (FMAP) in fiscal 2021, relative to only two quarters of said enhancement in fiscal 2020.

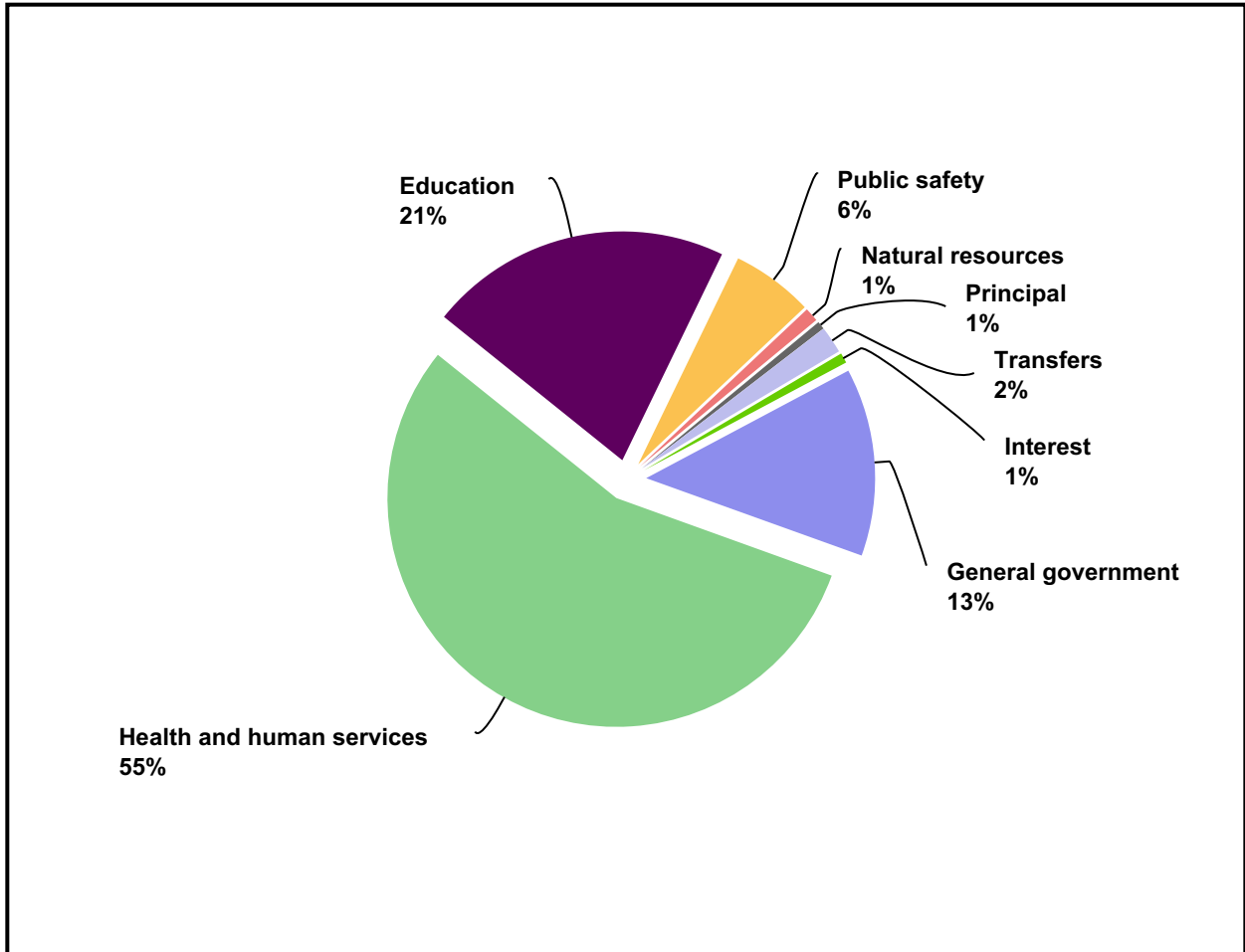
Irrespective of the major federal COVID response grants, the Department of Human Services saw increased spending of \$74.6 million, primarily due to an increase in federal funds expenditures for SNAP, LIHEAP, and various other federal grants administered by the Department. The year-over-year increase at DHS for the major federal COVID response grants totaled approximately \$57.1 million, concentrated within the areas of the Child Care and Development Block Grant, the Community Services Block Grant, enhanced SNAP benefits, nutrition services for the elderly, and veteran's services.

The year-over-year increase to the Education function expenditures of \$176.8 million is primarily the result of \$86.5 million more in additional funding for education aid to local school districts and state schools via the education aid funding formula; a \$4.0 million increase to the state's contribution to teacher retirement costs,

and a net increase of \$7.7 million to state support for Rhode Island's public higher education institutions. Also driving this year-over-year education function increase is the major federal COVID response grants, which totaled approximately \$63.4 million. They were comprised mainly of increases to direct grants for school nutrition and food service programs, increased allocations from the Coronavirus Relief Fund for supplemental education aid to local education agencies and K-12 reopening activities, and the segment of the workforce development program known as "Back to Work RI" administered by the Office of the Postsecondary Commissioner.

Chart 5 depicts the General Fund expenditures and other uses for fiscal 2021.

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):

	2021	2020	Increase (decrease) from 2020	
			Change	Percent
Restricted	\$ 223,404	\$ 320,289	\$ (96,885)	(30.25)%
Unrestricted				
Committed	41,835	50,717	(8,882)	(17.51)%
Assigned	579	—	579	100.00 %
Unassigned (deficit)	—	(588)	588	(100.00)%
Total	<u>\$ 265,818</u>	<u>\$ 370,418</u>	<u>\$ (104,600)</u>	<u>(28.24)%</u>

The net decrease of \$96.9 million in the restricted portion of the fund balance is primarily related to GARVEE bond proceeds used by the State as the pace of bridge and highway improvements being made under the State's RhodeWorks initiative rose significantly this year. The net decrease of \$8.9 million in the committed portion of the unrestricted fund balance resulted from multiple factors including a decrease in the RI Highway Maintenance Account.

### **General Fund Budgetary Highlights - General Revenue Sources**

According to the State's Constitution, general revenue appropriations of 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 which is in the General Fund. 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.

Pandemic related adjustments to general revenue receipt estimates resulted in a significant increase of \$161.6 million between the original budget and the final budget. General revenue appropriations decreased from the original budget by \$170.6 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, 2021

	Original Budget	Final Budget	Actual*	Final Budget vs. Actual Variance
Revenues and other sources:				
Taxes:				
Personal income	\$ 1,450,400	\$ 1,540,516	\$ 1,615,512	\$ 74,996
General business	458,200	424,012	500,507	76,495
Sales and use	1,390,800	1,475,100	1,524,014	48,914
Other taxes	73,900	61,200	61,165	(35)
Departmental revenue	390,000	398,928	402,688	3,760
Other sources:				
Lottery transfer	272,500	288,900	301,803	12,903
Unclaimed property	10,300	15,600	16,270	670
Miscellaneous	10,325	13,800	9,620	(4,180)
Total revenues and other sources	<u>4,056,425</u>	<u>4,218,056</u>	<u>4,431,579</u>	<u>213,523</u>
Expenditures and other uses:				
General government	586,510	618,763	628,517	9,754
Health and Human services	1,613,907	1,487,142	1,574,987	87,845
Education	1,525,091	1,524,789	1,522,546	(2,243)
Public safety	382,412	306,874	307,538	664
Natural resources	45,350	45,081	45,051	(30)
Total expenditures and other uses	<u>4,153,270</u>	<u>3,982,649</u>	<u>4,078,639</u>	<u>95,990</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ (96,845)</u>	<u>\$ 235,407</u>	<u>\$ 352,940</u>	<u>\$ 117,533</u>

\*See Notes on the General Fund Budgetary Comparison Schedule

The favorable variance between the fiscal 2021 actual revenues and the fiscal 2021 final budget for personal income taxes was largely attributable to a stronger than expected recovery from the pandemic induced economic decline in 2020.

Actual fiscal 2021 general business taxes ended the year \$76.5 million above the final enacted budget but just \$42.3 million more than the original budget due to actual public utilities gross earnings tax and health care provider assessment revenues coming in a combined \$23.0 million lower than the estimated amount included in the original budget. At the time of final enactment in June 2021, the revenue estimates for these items had been reduced such that the difference between actual fiscal 2021 revenues and final enacted fiscal 2021 revenues for these items was a negative \$7.2 million. Actual business corporation tax revenues ended the year \$50.5 million higher than the original estimate, and \$86.2 million higher than the final enacted budget amount.

Sales and use and excise tax revenues received in fiscal 2021 were \$133.3 million more than estimated sales and use tax revenues included in the fiscal 2021 original budget, led by a surplus in sales and use tax revenues of \$128.7 million. The excess in sales and use tax revenues was reduced when compared to the final enacted fiscal 2021 budget with actual sales and use tax revenues coming in \$48.9 million above the estimate.

The strength in sales and use tax revenues in fiscal 2021 is likely the result of the state's successful efforts in getting remote sellers to collect and remit the sales tax on taxable sales made into the state and stronger than expected retail sales during the COVID-19 pandemic.

Actual fiscal 2021 other tax revenues were substantively lower than in the original budget but only slightly below the final budget estimate. In the case of the former, the difference was \$12.7 million while in the case of the latter, the difference was \$35.0 thousand. The receipt of estate and transfer tax payments are difficult to predict in number and amount. Compared to the final enacted budget, estate and transfer tax payments exceeded expectations by \$86.7 thousand, versus a shortfall of \$15.1 million compared to the original budget. In addition, actual realty transfer tax revenues in fiscal 2021 ended up slightly less than expected in the final budget by \$125.4 thousand but exceeded the amount included in the original budget by \$2.4 million.

Finally, the actual fiscal 2021 Lottery transfer to the General Fund was \$12.9 million above the revenue estimate contained in the final budget and was \$29.3 million above the estimated Lottery transfer to the General Fund contained in the fiscal 2021 original budget. The surplus compared to the final budget was largely driven by higher than expected transfers of net terminal income from video lottery terminals installed at Twin River and Tiverton. The final fiscal 2021 transfer of net terminal income from video lottery terminals ended up \$8.4 million above the final enacted estimate and was \$31.4 million above the fiscal 2021 original budget. This large increase in the transfer of net terminal income resulted from better than expected performance after the closure of the State's two casinos for nearly three months as a result of the COVID-19 pandemic in the prior fiscal year. The transfer revenues generated by traditional lottery products was \$9.9 million more than contained in the fiscal 2021 original budget, and \$2.4 million more than the revenue estimate in the final budget. All lottery components exceeded estimated budget amounts for both the original budget and final budget.

The negative expenditure variance for the General Government function of approximately \$9.8 million was primarily due to the categorization of certain COVID-19 pandemic-related expenses as general revenue expenses in anticipation of Federal Emergency Management Agency (FEMA) reimbursements received during fiscal 2022. Pandemic-related expenses re-categorized totaled approximately \$25.1 million, which was not budgeted as a general revenue expense in the final fiscal 2021 enacted budget. This deficit was offset by \$15.3 million in surpluses across several General Government agencies, the largest of which was \$5.9 million in the General Assembly. The General Assembly typically ends the fiscal year with a surplus, which under Rhode Island law is mostly reappropriated to fiscal 2022. The next largest surplus was \$4.0 million in the Department of Revenue, split mostly between the Division of Taxation and the Division of Motor Vehicles, which both experienced higher turnover savings from vacant positions than expected and also witnessed significant operating surpluses, particularly within the Division of Taxation's Tax Compliance Improvement Program (TCIP). The Department of Labor and Training concluded fiscal 2021 with a surplus totaling \$1.5 million, largely attributable to unexpended state appropriations for various workforce development initiatives, most notably within the Real Jobs Rhode Island program.

The negative variance for the Health and Human Services function of \$87.8 million was fully attributable to \$177.2 million in COVID-19 pandemic-related expenses re-categorized as general revenue expenses in anticipation of Federal Emergency Management Agency (FEMA) reimbursements in fiscal 2022. Again, these constitute unbudgeted general revenue expenses relative to the final fiscal 2021 enacted budget. The vast majority of these expenditures, or \$176.8 million, are housed within the Department of Health, which closed with an overall general revenue deficit totaling \$174.7 million. Offsetting surpluses occurred within several major health and human services agencies, including the Departments of Human Services (\$2.5 million); Children, Youth and Families (\$3.3 million); and Behavioral Healthcare, Developmental Disabilities, and Hospitals (\$68.2 million). The surplus within DHS is primarily due to unexpended appropriations in support of the operations of the Rhode Island Veteran's Home, which received significantly heightened federal support via FEMA while simultaneously experiencing a decline in patient/resident census. The DCYF surplus was primarily in the Child Welfare program and is generally due to lower caseloads than assumed in the final enacted budget, coupled with attendant savings in contract services and personnel expenses. Finally, the highly significant surplus within BHDDH is primarily the result of surpluses in two major programs: \$13.1 million in services for the developmentally disabled, which incurred lower caseload expenditures than budgeted, and \$45.8 million at the state-run Eleanor Slater Hospital, which arose mainly due to unanticipated federal financial participation for retroactive hospital billing combined with a rate settlement receivable recorded in the amount of \$3.4 million.

The positive variance to the Education function of approximately \$2.2 million is driven by a surplus of \$2.3 million in the Department of Elementary and Secondary Education. Approximately \$0.8 million of this surplus



stems from savings in both the Early Childhood Demonstration and the Multilingual Learners “categorical” aid programs, due largely to decreased enrollment demand during the ongoing COVID-19 pandemic. Additionally, a favorable variance of \$1.5 million is evidenced in the Teacher Retirement program, which finances 40% of the employer cost of annual retirement contributions for public school teachers enrolled in the Employees’ Retirement System of Rhode Island (ERSRI). While this surplus reflects lower aggregate fiscal 2021 ERSRI billings than were estimated as part of the final enacted budget, the relative variance represents only 1.3% of appropriated program financing.

As with the General Government function, the negative variance in the Public Safety function of \$0.7 million is entirely due to the categorization of certain COVID-19 pandemic-related expenses as general revenue expenses in anticipation of Federal Emergency Management Agency (FEMA) reimbursements in fiscal 2022. Pandemic-related expenses re-categorized totaled approximately \$10.4 million, which was not budgeted as a general revenue expense in the final enacted budget. Without these expenses, the Public Safety function would have had a surplus of \$9.7 million. COVID-19 pandemic-related expenses incurred by the Rhode Island Emergency Management Agency (RIEMA) totaled \$10.3 million of the re-categorized expenses. Irrespective of these re-categorizations, the Departments of Public Safety and Corrections closed fiscal 2021 with surpluses of \$2.5 million and \$2.0 million, respectively. However, while the surplus in Corrections is primarily due to unexpended appropriations in non-personnel operating categories, the surplus in Public Safety is almost wholly attributable to turnover savings stemming from continuing unfilled vacancies at both the State Police and Security Services divisions. Finally, the Judiciary ended the year with a surplus of \$2.8 million, which under Rhode Island law is carried forward to fiscal 2022.

## Capital Assets and Debt Administration

### Capital Assets

The State investment in capital assets for its governmental and business-type activities as of June 30, 2021 amounts to \$5.1 billion, net of accumulated depreciation of \$4.0 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, computer systems, and construction in progress. The total increase in the State investment in capital assets for the current fiscal year was approximately 3.17% 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, and new buildings.

Actual expenditures to purchase or construct capital assets were \$413.5 million for the year. Of this amount, \$375.5 million was used to construct or reconstruct highways. Depreciation charges for the year totaled \$263.8 million.

State of Rhode Island Capital Assets as of June 30, 2021 and 2020 (Expressed in Thousands)						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Capital assets not being depreciated or amortized						
Land	\$ 395,488	\$ 391,363	\$ 46,808	\$ 46,808	\$ 442,296	\$ 438,171
Works of Art	4,385	4,385	—	—	4,385	4,385
Intangibles	183,456	182,036	—	—	183,456	182,036
Construction in progress	704,362	660,498	2,799	4,931	707,161	665,429
Total capital assets not being depreciated or amortized	1,287,691	1,238,282	49,607	51,739	1,337,298	1,290,021
Capital assets being depreciated or amortized						
Land improvements	8,331	8,331	—	—	8,331	8,331
Buildings	891,818	891,078	277,708	276,453	1,169,526	1,167,531
Building improvements	529,424	510,132	—	—	529,424	510,132
Equipment	371,266	361,788	51,318	48,608	422,584	410,396
Intangibles	344,315	341,738	175	175	344,490	341,913
Infrastructure	5,273,433	4,948,464	—	—	5,273,433	4,948,464
	7,418,587	7,061,531	329,201	325,236	7,747,788	7,386,767
Less: Accumulated depreciation or amortization	3,748,407	3,511,348	221,177	207,229	3,969,584	3,718,577
Total capital assets being depreciated or amortized	3,670,180	3,550,183	108,024	118,007	3,778,204	3,668,190
Total capital assets (net)	\$ 4,957,871	\$ 4,788,465	\$ 157,631	\$ 169,746	\$ 5,115,502	\$ 4,958,211

Additional information about the State's capital assets can be found at Note 5 to the financial statements.

## Debt Administration

According to 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 governmental activities had total bonded debt outstanding of \$2.6 billion, of which \$1.3 billion is general obligation debt, \$647.1 million is special obligation debt and \$580.9 million is debt of the blended component units. Additionally, accreted interest of \$137.0 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 total bonded debt decreased by \$32.7 million during fiscal 2021. This decrease consists of a \$48.4 million increase in general obligation debt, a decrease of \$57.7 million in special obligation debt, and a decrease of \$23.4 million in the blended component unit 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 \$214.5 million and \$1.3 billion are supported by pledged revenue. These obligations are discussed in the financial statement Notes 7 and 13.

During April 2021 the State issued \$136 million of general obligation bonds with interest rates of 0.25% - 5.00%, maturing from 2023 through 2041. The premium paid on these bonds was \$14.9 million. In accordance with certain bond statutes, net premiums of \$8.8 million were transferred to RI Infrastructure Bank to provide municipalities with low-cost financial assistance for road and bridge projects and \$5.8 million was transferred to the Rhode Island Capital Plan Fund.

The State also issued \$87.7 million of general obligation refunding bonds with interest rates of 1.00% - 5.00%, maturing from 2022 through 2034. The premium paid on these bonds was \$1.9 million. These bonds, combined with the premium, were deposited in an irrevocable trust to advance refund \$80.7 million of series 2011A, 2012A, 2013A, 2013B, and 2014B bonds with interest rates between 3.000% and 5.058%. The refunding resulted in a \$8.2 million reduction of debt service and a \$8 million economic gain (difference between the present value of the debt service payments on the old and new debt). The advanced refunding resulted in a deferred loss (difference between the reacquisition price and the net carry amount of the old debt) of approximately \$2.7 million that was recorded as a deferred outflow of resources.

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, 2021 amounted to \$576 million; other obligations that are authorized but unissued totaled \$208.8 million and are described at Note 7 of the financial statements. State long-term debt information can also be found in the notes to the financial statements of this report.

## Economic Outlook and Fiscal 2022 Budget

The first quarter report for fiscal 2022 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 2021 Caseload and Revenue Estimating Conferences. The fiscal 2022 balance, based upon these assumptions, is estimated to reflect a \$618.4 million general revenue surplus at year end in the General Fund.

The first quarter report for fiscal 2022 reported expenditures revised downward by \$86.5 million, primarily in the Human Service functional area. The extension of the enhanced Federal Medical Assistance Percentage rendered a savings of \$39.0 million. In addition, there was a decrease of \$41.8 million of expenditures within various programs subject to the November 2021 Caseload Estimating Conference. All changes recommended by the Governor in the fiscal 2022 enacted appropriations, or adopted revenues, will be incorporated in the supplemental appropriations bill, which must be submitted to the General Assembly early 2022.

The November Revenue Estimating Conference's estimates reflect recent revenue trends and expected collections based upon the current economic forecast. Consensus estimates of general revenue receipts were increased by \$273.6 million, up from \$4.41 billion to \$4.68 billion compared with the enacted fiscal 2022 estimate. The largest factor is an expected increase to taxes of \$259.8 million. The transfer from the Rhode Island Lottery is also expected to increase by \$17.4 million. These increases are offset by anticipated decreases to the enacted estimate of departmental revenues and other sources of \$3.1 million.

## Conditions Expected to Affect Future Operations

### American Rescue Plan - State Fiscal Recovery Funding

Funding to the State from the American Rescue Plan Act's State Fiscal Recovery funds will allow large-scale, sustainable investments in the climate, blue and green economies, workforce, public health care, housing, and more. The 2023 budget proposal includes a wide array of proposals to use these funds to begin investing in the State's recovery from the pandemic and provides important resources to assist the State in managing the continuing challenges of the on-going pandemic. Use of the funding will be appropriated by the General Assembly. The significance of the amount of recovery funding represents an unprecedented opportunity to make significant investments designed to benefit the State's overall economy for several years.

## **Lottery Revenue**

Net operations of the Rhode Island Lottery (Lottery) represent the State's third-largest revenue source. The following factors currently exist that will impact future operations:

- *Continuing impacts to revenue caused by the COVID-19 pandemic* – The State's two licensed casinos and related Lottery revenue will continue to be impacted as the State manages the public health emergency.
- *Changes in gaming technology* – Lottery continues to utilize new gaming technology to expand product offerings. Planned expansions of newly implemented mobile sports betting and iLottery gaming products allow patrons to play Lottery games utilizing mobile applications and the internet. Facilitating access to Lottery games, especially during the public health emergency, may offset some of the negative impacts that have resulted from the pandemic.
- *Competition from casinos in nearby states* – Efforts to compete effectively with casino offerings in nearby states will undoubtedly persist and continue to involve enhanced player incentives and ensuring new games and gambling options are offered to patrons.

In June 2021, the Rhode Island General Assembly enacted legislation authorizing the State Lottery Division to extend contracts for services and products with IGT Global Solutions Corporation (IGT) through June 30, 2043. The State Lottery Division may amend the IGT master contract to June 30, 2043, including agreements related to online gaming, the video lottery central computer system, the video lottery technology provider license, instant tickets and related vending machine agreement, and the website services agreement. Of most significance, the executed contract extensions will require IGT to pay \$27 million (up-front payment) to be the exclusive provider to the Division of its products and services under the contract; amend the online lottery agreement rates of compensation (online and instant games); and obligate IGT to capital investment, employment, and compensation pay requirements.

The legislation also authorizes the State Lottery Division to agree to contract extensions through June 30, 2043 with the Bally's Corporation (owner and operator of the Lottery's licensed gaming facilities) or an affiliate (Bally's) in exchange for constructing a 50,000 square foot addition to the Lincoln Gaming Facility and leasing commercial space in the City of Providence. The extension would mandate a \$100 million investment by Bally's relating to the Lincoln expansion and improvements. In addition, the Bally's extension will require Bally's to enter into a Joint Venture with IGT for the right to be the exclusive Technology Provider of video lottery terminals (VLT) from the date of the Joint Venture to June 30, 2043.

Finalization of contracts reflecting the newly authorized provisions are in process but have not been executed.

## **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 18 to the financial statements for information about each of the state's pension plans.

Future operations will continue to be affected by the actuarially calculated amounts required to responsibly fund pensions consistent with statutory and actuarial requirements. Similarly, the 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 from year to year.

In addition to the comprehensive pension reform measures adopted in prior years, the State continues to responsibly manage its pension liabilities through investment management and adoption of appropriate actuarial assumptions.

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## **Transportation Funding Initiative**

In order to address Rhode Island's continuing issues with deteriorating roads and bridges, an initiative, 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. Since RhodeWorks was enacted in 2016, DOT has overseen 233 projects including completion of 183 bridges.

In addition, as more fully described in Note 23, Subsequent Events, the federal Infrastructure Investment and Jobs Act (IIJA), a 5-year infrastructure funding package, is expected to provide \$1.7 billion for transportation infrastructure to the State. This new funding will expedite 100 projects valued at \$2.1 billion in the state Transportation Improvement Program. State matching funds will be combined with the federal funds to accelerate these improvements. In addition, the IIJA provides funding for significant investments in the State's airports, transit systems, electric vehicle charging networks, high-speed internet coverage, and drinking water infrastructure, as many of the infrastructure improvements targeted by the act. This unprecedented infrastructure investment will greatly assist the State in addressing current transportation infrastructure deficiencies while also allowing the State to make new investments modernizing the infrastructure that supports telecommunications, power grids, clean energy initiatives and other vital infrastructure.

## **Information Technology Security and Cybersecurity**

The State relies upon a large and complex technology environment to conduct its operations and faces multiple cybersecurity threats and potential attacks on its computing and other digital networks and systems. To mitigate the risk of impact to State operations and damage from cybersecurity incidents or cyber-attacks, the State has prioritized and increased investments in multiple forms of cybersecurity and operational safeguards based on strategies developed by the State's Chief Information Security Officer that align with the well-defined cybersecurity and risk management frameworks.

## **Statewide School Construction Funding**

Voters approved a \$250 million Statewide School Construction Bond, a new funding mechanism designed to provide upfront funding for local school construction projects. Pursuant to RIGL 45-38.2-4(e)(2), funding is based on a set percentage of foundational housing aid awarded. Local education agencies with Necessity of School Construction approvals will be offered 15% of the state share of their approval on a pay-as-you-go basis for projects that have not completed and for projects that have not issued permanent financing (bonds) through RIHEBC. The State has authorized school project awards approximating \$186 million of the \$250 million to date in conjunction with this program. This commitment will help our state to create learning environments that support the attainment of the academic, social, emotional, career readiness, and citizenship knowledge, skills, and competencies necessary to be successful in the 21st century.

## **Requests for Information**

This report is designed to provide a general overview of the State finances and accountability for the State 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 Tara Mello, Associate Controller at [tara.m.mello@doa.ri.gov](mailto:tara.m.mello@doa.ri.gov). The State's Annual Comprehensive 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, 2021





**State of Rhode Island**  
**Statement of Net Position**  
**June 30, 2021**  
**(Expressed in Thousands)**

	Primary Government			Component Units
	Governmental Activities	Business - Type Activities	Total	
<b>Assets and deferred outflows of resources</b>				
Current assets:				
Cash and cash equivalents	\$ 2,881,971	\$ 39,093	\$ 2,921,064	\$ 410,478
Funds on deposit with fiscal agent	273,826	158,089	431,915	—
Investments	—	—	—	3,383
Receivables (net)	900,181	75,939	976,120	128,544
Restricted assets:				
Cash and cash equivalents	50,448	3,465	53,913	811,409
Investments	—	—	—	160,580
Receivables (net)	—	—	—	106,342
Other assets	—	—	—	51,032
Due from primary government	—	—	—	36,417
Due from component units	14,847	—	14,847	2,054
Internal balances	613	(613)	—	—
Due from other governments and agencies	406,309	8,719	415,028	4,203
Inventories	1,537	913	2,450	7,637
Other assets	6,019	814	6,833	16,704
Total current assets	4,535,751	286,419	4,822,170	1,738,783
Noncurrent assets:				
Investments	—	—	—	322,915
Receivables (net)	33,265	—	33,265	108,072
Due from other governments and agencies	21,955	—	21,955	—
Restricted assets:				
Cash and cash equivalents	—	—	—	72,432
Investments	—	—	—	796,977
Receivables (net)	—	—	—	1,110,548
Other assets	—	—	—	1,322,489
Due from component units	36,816	—	36,816	923
Net OPEB Asset	11,226	—	11,226	—
Capital assets - nondepreciable	1,287,691	49,607	1,337,298	350,794
Capital assets - depreciable (net)	3,670,180	108,024	3,778,204	2,076,393
Other assets	—	175	175	199,162
Total noncurrent assets	5,061,133	157,806	5,218,939	6,360,705
Total assets	9,596,884	444,225	10,041,109	8,099,488
<b>Deferred outflows of resources</b>	712,407	11,697	724,104	95,865

(Continued)



**State of Rhode Island**  
**Statement of Net Position**  
**June 30, 2021**  
**(Expressed in Thousands)**

	Primary Government			Component Units
	Governmental Activities	Business - Type Activities	Total	
<b>Liabilities and deferred inflows of resources</b>				
Current Liabilities:				
Accounts payable	\$ 889,121	\$ 27,254	\$ 916,375	\$ 79,147
Notes payable	—	—	—	74,861
Due to primary government	—	—	—	14,847
Due to component units	36,417	—	36,417	2,054
Due to other governments and agencies	—	642	642	—
Accrued expenses	—	5,894	5,894	—
Unearned revenue	1,522,595	—	1,522,595	42,411
Other current liabilities	205,291	2,821	208,112	457,460
Current portion of long-term debt	274,376	17,204	291,580	147,794
Obligation for unpaid prize awards	—	12,827	12,827	—
Total current liabilities	2,927,800	66,642	2,994,442	818,574
Noncurrent Liabilities:				
Due to primary government	—	—	—	36,816
Net pension liability	2,310,286	21,652	2,331,938	305,265
Net pension liability-special funding situation	1,361,982	—	1,361,982	—
Net OPEB liability	341,930	3,420	345,350	161,726
Unearned revenue	—	2,022	2,022	4,908
Due to component units	—	—	—	923
Notes payable	—	—	—	182,524
Loans payable	—	—	—	13,130
Obligations under capital leases	113,816	—	113,816	1,011
Compensated absences	13,089	317	13,406	26,340
Bonds payable	2,716,748	180,975	2,897,723	2,789,443
Other liabilities	86,410	184	86,594	431,562
Total noncurrent liabilities	6,944,261	208,570	7,152,831	3,953,648
Total liabilities	9,872,061	275,212	10,147,273	4,772,222
<b>Deferred inflows of resources</b>	273,477	1,573	275,050	63,255
<b>Net position (deficit)</b>				
Net investment in capital assets	4,049,759	(29,662)	4,020,097	1,669,844
Restricted for:				
Capital Projects	148,694	—	148,694	—
Debt	71,558	299	71,857	392,560
Employment security programs	173,570	231,386	404,956	—
Other	315,433	—	315,433	1,113,114
Nonexpendable	174	—	174	156,468
Unrestricted	(4,595,435)	(22,886)	(4,618,321)	27,890
Total net position	\$ 163,753	\$ 179,137	\$ 342,890	\$ 3,359,876

(Concluded)

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

State of Rhode Island  
Statement of Activities  
For the Fiscal Year Ended June 30, 2021  
(Expressed in Thousands)

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Units
	Expenses	Charges for Services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Totals	
<b>Primary government:</b>								
Governmental activities:								
General government	\$ 1,399,797	\$ 253,378	\$ 704,971	\$ 3,296	\$ (438,152)	\$ —	\$ (438,152)	\$ —
Health and human services	4,959,473	306,969	3,270,278	4,938	(1,377,288)	—	(1,377,288)	—
Education	1,929,835	40,478	315,048	86	(1,574,223)	—	(1,574,223)	—
Public safety	610,263	41,677	315,918	6,693	(245,975)	—	(245,975)	—
Natural resources	96,158	34,447	24,196	4,143	(33,372)	—	(33,372)	—
Transportation	375,266	58,163	67,425	263,820	14,142	—	14,142	—
Interest and other charges	98,595	—	—	—	(98,595)	—	(98,595)	—
Total governmental activities	9,469,387	735,112	4,697,836	282,976	(3,753,463)	—	(3,753,463)	—
Business-type activities:								
State Lottery	773,867	1,074,012	—	—	—	300,145	300,145	—
Convention Center	33,499	4,521	—	—	—	(28,978)	(28,978)	—
Employment Security	2,058,867	226,948	1,693,345	—	—	(138,574)	(138,574)	—
Total business-type activities	2,866,233	1,305,481	1,693,345	—	—	132,593	132,593	—
Total primary government	\$ 12,335,620	\$ 2,040,593	\$ 6,391,181	\$ 282,976	(3,753,463)	132,593	(3,620,870)	—
<b>Component units:</b>	\$ 1,579,505	\$ 713,104	\$ 842,873	\$ 143,936				120,408
<b>General Revenues:</b>								
Taxes:								
Personal income					1,609,848	—	1,609,848	—
General business					497,284	—	497,284	—
Sales and use					1,522,519	—	1,522,519	—
Gasoline					143,345	—	143,345	—
Other					370,934	—	370,934	—
Interest and investment earnings					3,110	156	3,266	117,076
Miscellaneous revenue					109,667	15,271	124,938	43,487
Net gain (loss) on sale of capital assets					8,326	—	8,326	(2,316)
<b>Transfers (net)</b>					275,840	(275,840)	—	—
Total general revenues and transfers					4,540,873	(260,413)	4,280,460	158,247
Change in net position					787,410	(127,820)	659,590	278,655
<b>Net position (deficit) - beginning as restated</b>					(623,657)	306,957	(316,700)	3,081,221
<b>Net position- ending</b>					\$ 163,753	\$ 179,137	\$ 342,890	\$ 3,359,876

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

**State of Rhode Island  
Balance Sheet  
Governmental Funds  
June 30, 2021  
(Expressed in Thousands)**

	<u>General</u>	<u>Intermodal Surface Transportation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 2,416,779	\$ 60,751	\$ 367,436	\$ 2,844,966
Funds on deposit with fiscal agent	—	216,443	57,383	273,826
Restricted cash equivalents	—	—	50,448	50,448
Receivables (net)	819,079	17,037	89,557	925,673
Due from other funds	—	133	139,820	139,953
Due from component units	—	211	—	211
Due from other governments and agencies	355,401	60,476	—	415,877
Loans to other funds	24,208	—	33,031	57,239
Other assets	1,571	—	—	1,571
Total assets	<u>\$ 3,617,038</u>	<u>\$ 355,051</u>	<u>\$ 737,675</u>	<u>\$ 4,709,764</u>
<b>Liabilities, deferred inflows of resources and fund balances</b>				
<b>Liabilities</b>				
Accounts payable	790,760	71,331	11,085	873,176
Due to other funds	144,239	—	383	144,622
Due to component units	21,125	—	5,077	26,202
Loans from other funds	33,031	—	15,008	48,039
Unearned revenue	1,521,331	—	—	1,521,331
Other liabilities	176,578	8,280	211	185,069
Total liabilities	<u>2,687,064</u>	<u>79,611</u>	<u>31,764</u>	<u>2,798,439</u>
Deferred inflows of resources	<u>32,719</u>	<u>9,622</u>	<u>—</u>	<u>42,341</u>
<b>Fund Balances</b>				
Nonspendable	1,538	—	174	1,712
Restricted	276,172	223,404	705,304	1,204,880
Unrestricted				
Committed	8,135	41,835	433	50,403
Assigned	291,985	579	—	292,564
Unassigned	319,425	—	—	319,425
Total fund balances	<u>897,255</u>	<u>265,818</u>	<u>705,911</u>	<u>1,868,984</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,617,038</u>	<u>\$ 355,051</u>	<u>\$ 737,675</u>	<u>\$ 4,709,764</u>

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

**State of Rhode Island**  
**Reconciliation of the Balance Sheet of the Governmental Funds**  
**to the Statement of Net Position**  
**June 30, 2021**  
**(Expressed in Thousands)**

Fund balance - total governmental funds \$ 1,868,984

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	8,703,013	
Accumulated depreciation	(3,748,407)	
	4,954,606	4,954,606

Deferred outflows of resources 712,407

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	(80,408)	
Bonds payable	(2,676,703)	
Net premium/discount on Bonds	(212,395)	
Obligations under capital leases	(128,046)	
Premium on Certificates of Participation	(9,398)	
Interest payable	(21,874)	
Net pension liabilities	(3,672,268)	
Net OPEB liabilities	(341,930)	
Other liabilities	(83,737)	
	(7,226,759)	(7,226,759)

Other long-term assets and unearned revenue are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

Receivables	12,309	
Due from component units	41,236	
Net OPEB asset	11,226	
Unavailable revenue	42,341	
	107,112	107,112

Deferred inflows of resources (273,477)

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.

Net position - total governmental activities		20,880
		\$ 163,753

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

**State of Rhode Island**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2021**  
**(Expressed in Thousands)**

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 3,688,078	\$ 218,124	\$ 234,991	\$ 4,141,193
Licenses, fines, tolls, sales, and services	378,662	58,596	1,677	438,935
Departmental restricted revenue	305,523	—	—	305,523
Federal grants	4,649,167	326,705	—	4,975,872
Income from investments	1,976	543	554	3,073
Other revenues	64,650	1,520	48,325	114,495
Total revenues	9,088,056	605,488	285,547	9,979,091
<b>Expenditures:</b>				
Current:				
General government	1,141,313	—	197,007	1,338,320
Health and human services	4,925,442	—	—	4,925,442
Education	1,839,019	—	323	1,839,342
Public safety	587,243	—	—	587,243
Natural resources	85,374	—	—	85,374
Transportation	—	583,658	3,284	586,942
Capital outlays	—	—	131,900	131,900
Debt service:				
Principal	139,023	41,571	24,859	205,453
Interest and other charges	64,095	29,864	24,999	118,958
Total expenditures	8,781,509	655,093	382,372	9,818,974
Excess (deficiency) of revenues over (under) expenditures	306,547	(49,605)	(96,825)	160,117
<b>Other financing sources (uses):</b>				
Issuance of bonds and notes	—	—	135,900	135,900
Issuance of refunding bonds	—	—	87,660	87,660
Debt issuance premiums	—	—	16,755	16,755
Transfers in	367,744	29	149,023	516,796
Payment to advance refunded bonds escrow agent	—	—	(89,005)	(89,005)
Transfers out	(164,963)	(55,024)	(20,969)	(240,956)
Total other financing sources (uses)	202,781	(54,995)	279,364	427,150
Net change in fund balances	509,328	(104,600)	182,539	587,267
Fund balances - beginning (as restated)	387,927	370,418	523,372	1,281,717
Fund balances - ending	<u>\$ 897,255</u>	<u>\$ 265,818</u>	<u>\$ 705,911</u>	<u>\$ 1,868,984</u>

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

**State of Rhode Island**  
**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, 2021**  
**(Expressed in Thousands)**

Net change in fund balances - total governmental funds \$ 587,267

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	435,027	
Depreciation expense	<u>(249,056)</u>	
		185,971

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	205,334	
Debt defeased in refunding	80,700	
Accrued interest and other charges	2,264	
Proceeds from sale of debt	(223,560)	
Refunding loss deferral	2,763	
Deferral of premium/discount	(16,755)	
Amortization of premium/discount	43,467	
Accreted interest	(13,917)	
Amortization of refunding gains/losses	<u>(5,789)</u>	
		74,507

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	3,833	
Pension expenses, net of related deferred outflows	(67,334)	
OPEB expenses, net of related deferred outflows	27,690	
Program expenses	(17,881)	
Program and miscellaneous revenue	(6,000)	
Operating and capital grant revenue	4,540	
General revenue - taxes	<u>2,738</u>	
		(52,414)

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.

Change in net position - total governmental activities \$ 787,410

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

**State of Rhode Island**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2021**  
**(Expressed in Thousands)**

	Business-type Activities- Enterprise Funds			Governmental Activities	
	R.I.			Totals	Internal Service Funds
	R.I. Lottery	Convention Center	Employment Security		
<b>Assets and deferred outflows of resources</b>					
Current assets:					
Cash and cash equivalents	\$ 33,584	\$ 3,037	\$ 2,472	\$ 39,093	\$ 37,005
Restricted cash and cash equivalents	—	3,465	—	3,465	—
Funds on deposit with fiscal agent	—	—	158,089	158,089	—
Receivables (net)	4,817	245	70,877	75,939	7,811
Due from other funds	1	958	1,786	2,745	5,544
Due from other governments and agencies	—	—	8,719	8,719	—
Loans to other funds	—	—	—	—	—
Inventories	913	—	—	913	1,537
Other assets	396	418	—	814	4,661
Total current assets	39,711	8,123	241,943	289,777	56,558
Noncurrent assets:					
Capital assets - nondepreciable	—	49,607	—	49,607	—
Capital assets - depreciable (net)	346	107,678	—	108,024	3,265
Other assets	—	175	—	175	—
Total noncurrent assets	346	157,460	—	157,806	3,265
Total assets	40,057	165,583	241,943	447,583	59,823
<b>Deferred outflows of resources</b>	7,029	4,668	—	11,697	—
<b>Liabilities and deferred inflows of resources</b>					
Current liabilities:					
Accounts payable	14,723	3,772	8,759	27,254	18,552
Due to other funds	3,358	—	—	3,358	262
Due to other governments and agencies	—	—	642	642	—
Loans from other funds	—	—	—	—	9,200
Accrued expenses	5,894	—	—	5,894	—
Unearned revenue	625	2,296	—	2,921	—
Other current liabilities	2,650	129	42	2,821	10,929
Bonds payable	—	13,995	—	13,995	—
Compensated absences	288	—	—	288	—
Obligation for unpaid prize awards	12,827	—	—	12,827	—
Total current liabilities	40,365	20,192	9,443	70,000	38,943
Noncurrent liabilities:					
Net pension liability	21,652	—	—	21,652	—
Net OPEB liability	3,420	—	—	3,420	—
Unearned revenue	625	283	1,114	2,022	—
Bonds payable	—	180,975	—	180,975	—
Compensated absences	317	—	—	317	—
Other noncurrent liabilities	—	184	—	184	—
Total noncurrent liabilities	26,014	181,442	1,114	208,570	—
Total liabilities	66,379	201,634	10,557	278,570	38,943
<b>Deferred inflows of resources</b>	1,573	—	—	1,573	—
<b>Net Position (Deficit)</b>					
Net investment in capital assets	346	(30,008)	—	(29,662)	3,265
Restricted for:					
Debt	—	299	—	299	—
Employment insurance programs	—	—	231,386	231,386	—
Unrestricted	(21,212)	(1,674)	—	(22,886)	17,615
Total net position (deficit)	\$ (20,866)	\$ (31,383)	\$ 231,386	\$ 179,137	\$ 20,880

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



**State of Rhode Island**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2021**  
**(Expressed in Thousands)**

	Business-type Activities- Enterprise Funds			Governmental Activities	
	R.I.			Internal	
	R.I. Lottery	Convention Center	Employment Security	Totals	Service Funds
<b>Operating revenues:</b>					
Charges for services	\$ —	\$ 4,242	\$ —	\$ 4,242	\$ 433,525
Employer premiums	—	—	214,516	214,516	—
Lottery sales	295,942	—	—	295,942	—
Video lottery, net	345,066	—	—	345,066	—
Table games	79,459	—	—	79,459	—
Sports book	352,995	—	—	352,995	—
Federal grants	—	—	1,693,345	1,693,345	—
Miscellaneous	550	279	12,432	13,261	—
Total operating revenues	1,074,012	4,521	1,920,293	2,998,826	433,525
<b>Operating expenses:</b>					
Personnel services	12,224	3,558	—	15,782	55,952
Supplies, materials, and services	260,910	5,853	—	266,763	384,967
Prize awards, net of prize recoveries	500,595	—	—	500,595	—
Depreciation and amortization	138	14,007	—	14,145	562
Benefits paid	—	—	2,058,867	2,058,867	—
Total operating expenses	773,867	23,418	2,058,867	2,856,152	441,481
<b>Operating income (loss)</b>	300,145	(18,897)	(138,574)	142,674	(7,956)
<b>Nonoperating revenues (expenses):</b>					
Interest revenue	155	1	—	156	34
Other nonoperating revenues (expenses)	1,003	9,997	4,271	15,271	1
Interest expense	—	(10,081)	—	(10,081)	—
Total nonoperating revenue (expenses)	1,158	(83)	4,271	5,346	35
Income (loss) before transfers	301,303	(18,980)	(134,303)	148,020	(7,921)
<b>Transfers in</b>	—	25,963	—	25,963	—
<b>Transfers out</b>	(301,803)	—	—	(301,803)	—
Change in net position	(500)	6,983	(134,303)	(127,820)	(7,921)
<b>Net position (deficit) - beginning as restated</b>	(20,366)	(38,366)	365,689	306,957	28,801
<b>Net position (deficit) - ending</b>	\$ (20,866)	\$ (31,383)	\$ 231,386	\$ 179,137	\$ 20,880

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

**State of Rhode Island  
Statement of Cash Flows  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2021**

	Business-type Activities- Enterprise Funds			Governmental Activities	
	R.I. Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
<b>Cash flows from operating activities:</b>					
Cash received from gaming activities	\$ 1,077,135	\$ —	\$ —	\$ 1,077,135	\$ —
Cash received from customers	—	4,337	—	4,337	444,681
Cash received from employer premiums	—	—	201,246	201,246	—
Cash received from grants	—	—	1,688,242	1,688,242	—
Cash received for other program benefits	—	—	219,669	219,669	—
Cash payments for gaming activities	(747,206)	—	—	(747,206)	—
Cash payments to suppliers	(5,638)	(6,494)	—	(12,132)	(385,898)
Cash payments to employees	(11,235)	(3,275)	—	(14,510)	(54,111)
Cash payments for benefits - Employment Security Fund	—	—	(2,041,954)	(2,041,954)	—
Cash payments for benefits – other	—	—	(219,669)	(219,669)	—
Other operating revenue (expense)	—	8,842	(10,229)	(1,387)	(268)
Net cash provided by (used for) operating activities	313,056	3,410	(162,695)	153,771	4,404
<b>Cash flows from noncapital financing activities:</b>					
Loans from other funds	—	—	—	—	(4,701)
Loans to other funds	—	—	—	—	2,236
Repayment of loans to other funds	—	—	—	—	(214)
Repayment of loans from other funds	—	—	—	—	1,538
Transfers in	—	26,346	1,217	27,563	—
Transfers out	(301,308)	—	(51)	(301,359)	—
Net transfers from (to) fiscal agent	—	—	161,643	161,643	—
Net cash provided by (used for) noncapital financing activities	(301,308)	26,346	162,809	(112,153)	(1,141)
<b>Cash flows from capital and related financing activities:</b>					
Proceeds from issuance of bonds	—	32,170	—	32,170	—
Principal paid on capital obligations	—	(13,360)	—	(13,360)	—
Refunded bond escrow agent	—	(32,013)	—	(32,013)	—
Interest paid on capital obligations	—	(8,759)	—	(8,759)	—
Acquisition of capital assets	(12)	(6,196)	—	(6,208)	(780)
Net cash provided by (used for) capital and related financing activities	(12)	(28,158)	—	(28,170)	(780)
<b>Cash flows from investing activities:</b>					
Interest on investments	155	1	—	156	37
Net cash provided by investing activities	155	1	—	156	37
Net increase (decrease) in cash and cash equivalents	11,891	1,599	114	13,604	2,520
Cash and cash equivalents, July 1	21,693	4,903	2,358	28,954	34,485
Cash and cash equivalents, June 30	\$ 33,584	\$ 6,502	\$ 2,472	\$ 42,558	\$ 37,005
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>					
Operating income (loss)	300,145	(18,897)	(138,574)	142,674	(7,956)
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:</b>					
Depreciation and amortization	138	14,007	—	14,145	563
Other revenue (expense) and transfers in (out)	377	8,856	(16,748)	(7,515)	1
Net changes in assets and liabilities:					
Receivables, net	185	260	(13,270)	(12,825)	11,570
Inventory	38	—	—	38	680
Deferred outflows of resources	289	—	—	289	—
Prepaid items	42	41	—	83	—
Due to / due from transactions	66	—	2,232	2,298	—
Accounts and other payables	7,998	(399)	8,759	16,358	(4,748)
Accrued expenses	766	—	8	774	4,294
Net pension liability	802	—	—	802	—
Net OPEB liability	(571)	—	—	(571)	—
Deferred inflows of resources	605	—	—	605	—
Unearned revenue	1,433	(458)	(5,102)	(4,127)	—
Prize awards payable	743	—	—	743	—
Total adjustments	12,911	22,307	(24,121)	11,097	12,360
Net cash provided by (used for) operating activities	\$ 313,056	\$ 3,410	\$ (162,695)	\$ 153,771	\$ 4,404

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

**State of Rhode Island**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2021**  
**(Expressed in Thousands)**

	Pension and Other Employee Benefit Trusts	Investment Trust Ocean State Investment Pool	Private Purpose Trusts	Custodial Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 15,472	\$ —	\$ 8,852	\$ —
Deposits held as security for entities doing business in the State	—	—	—	57,104
Receivables				
Contributions	19,228	—	—	—
Due from State for teachers	24,092	—	—	—
Due from other plans	1,331	—	—	—
Other	1,101	—	—	21,259
Miscellaneous	—	—	3,783	—
Total receivables	45,752	—	3,783	21,259
Prepaid expenses	2,806	—	—	—
Investments, at fair value				
Equity in short-term investment fund	—	55,412	—	—
Equity in pooled trusts	11,037,830	—	—	—
Other investments	1,620,178	—	5,411,505	—
Total investments	12,658,008	55,412	5,411,505	—
Total assets	12,722,038	55,412	5,424,140	78,363
<b>Liabilities</b>				
Accounts payable	5,398	4	13,680	—
Due to other plans	1,331	—	—	—
Incurred but not reported claims	1,005	—	—	—
Other	6,463	—	—	—
Unclaimed Property Claims	—	—	—	1,529
Deposits held for others	—	—	—	508
Total liabilities	14,197	4	13,680	2,037
<b>Net position</b>				
Restricted for:				
Pension benefits	12,175,165	—	—	—
Other postemployment benefits	532,676	—	—	—
External investment pool participants	—	55,408	—	—
Tuition savings program	—	—	5,403,888	—
Individuals, organizations and other governments	—	—	—	76,326
Other	—	—	6,572	—
Total fiduciary net position	\$ 12,707,841	\$ 55,408	\$ 5,410,460	\$ 76,326

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

**State of Rhode Island**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2021**  
**(Expressed in Thousands)**

	<b>Pension and Other Employee Benefit Trusts</b>	<b>Investment Trust Ocean State Investment Pool</b>	<b>Private Purpose Trusts</b>	<b>Custodial Funds</b>
<b>Additions</b>				
Contributions				
Member contributions	\$ 215,711	\$ —	\$ —	\$ —
Employer contributions	535,293	—	—	—
New employer contributions	1,232	—	—	—
Supplemental employer contributions	197	—	—	—
State contributions for teachers	112,623	—	—	—
Interest on service credits purchased	98	—	—	—
Service credit transfers	18,269	—	—	—
From program participants	—	119,640	373,071	—
Total contributions	<u>883,423</u>	<u>119,640</u>	<u>373,071</u>	<u>—</u>
Other income	<u>1,630</u>	<u>—</u>	<u>—</u>	<u>—</u>
Investment income				
Increase (Decrease) in fair value of investments	2,804,885	—	606,743	(2,540)
Interest	49,731	104	—	—
Dividends	72,779	—	148,986	—
Other investment income	956	—	—	—
	<u>2,928,351</u>	<u>104</u>	<u>755,729</u>	<u>(2,540)</u>
Less: investment expense	188,040	77	—	—
Net investment income (loss)	<u>2,740,311</u>	<u>27</u>	<u>755,729</u>	<u>(2,540)</u>
Unclaimed Property	—	—	—	35,571
Deposits for patients, clients and inmates	—	—	—	10,080
Miscellaneous	—	—	—	6,815
Total additions	<u>3,625,364</u>	<u>119,667</u>	<u>1,128,800</u>	<u>49,926</u>
<b>Deductions</b>				
Retirement benefits	975,612	—	—	—
Death benefits	3,781	—	—	—
Distributions	32,261	143,556	—	—
Program participant redemptions	—	—	866,769	—
Refund of contributions	4,811	—	—	—
Administrative expense	10,832	—	20,920	—
Service credit transfers	18,269	—	—	—
OPEB benefits	30,984	—	—	—
Payments and transfers of Unclaimed Property	—	—	—	31,577
Payments made on behalf of individuals in State care	—	—	—	9,306
Miscellaneous	—	—	—	6,382
Total deductions	<u>1,076,550</u>	<u>143,556</u>	<u>887,689</u>	<u>47,265</u>
Change in net position restricted for:				
Pension benefits	2,420,221	—	—	—
Other postemployment benefits	128,593	—	—	—
External investment pool participants	—	(23,889)	—	—
Tuition Savings Program	—	—	239,028	—
Other	—	—	2,083	2,661
<b>Fiduciary net position - beginning (as restated)</b>	<u>10,159,027</u>	<u>79,297</u>	<u>5,169,349</u>	<u>73,665</u>
<b>Fiduciary net position - ending</b>	<u>\$ 12,707,841</u>	<u>\$ 55,408</u>	<u>\$ 5,410,460</u>	<u>\$ 76,326</u>

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

**State of Rhode Island**  
**Combining Statement of Net Position**  
**Component Units**  
**June 30, 2021**  
**(Expressed in Thousands)**

	<u>RIAC</u>	<u>RICC</u>	<u>I-195 RDC</u>	<u>RIPTA</u>	<u>RITBA</u>
<b>Assets and deferred outflows of resources</b>					
Current Assets:					
Cash and cash equivalents	\$ 79,151	\$ 7,962	\$ 476	\$ 10,536	\$ 506
Investments	—	—	—	2,969	—
Receivables (net)	7,299	1,742	—	5,637	92
Restricted assets:					
Cash and cash equivalents	22,931	98,922	9,185	—	12,913
Due from primary government	—	—	—	—	—
Investments	—	2,196	—	—	7,547
Receivables (net)	—	44	—	—	—
Other assets	—	—	—	—	6,388
Due from primary government	—	15,423	—	9,380	1,898
Due from other governments	—	—	13	—	—
Due from other component units	—	151	—	—	—
Inventories	—	—	—	1,727	24
Other assets	211	167	54	1,223	241
Total current assets	<u>109,592</u>	<u>126,607</u>	<u>9,728</u>	<u>31,472</u>	<u>29,609</u>
Noncurrent Assets:					
Investments	—	455	—	3,060	—
Receivables (net)	—	7,529	—	—	—
Restricted assets:					
Cash and cash equivalents	42,453	6,982	—	—	10,995
Investments	9,583	6,920	—	—	96,560
Receivables (net)	5,314	165	—	—	—
Other assets	—	924	—	—	—
Capital assets - nondepreciable	71,703	521	—	29,175	3,064
Capital assets - depreciable (net)	445,957	327	—	107,515	234,006
Due from other component units	—	—	—	—	—
Other assets, net of amortization	128	—	487	2,620	—
Total noncurrent assets	<u>575,138</u>	<u>23,823</u>	<u>487</u>	<u>142,370</u>	<u>344,625</u>
Total assets	<u>684,730</u>	<u>150,430</u>	<u>10,215</u>	<u>173,842</u>	<u>374,234</u>
<b>Deferred outflows of resources</b>	<u>883</u>	<u>322</u>	<u>—</u>	<u>26,637</u>	<u>—</u>

(Continued)

**State of Rhode Island**  
**Combining Statement of Net Position**  
**Component Units**  
**June 30, 2021**  
**(Expressed in Thousands)**

	<u>RIAC</u>	<u>RICC</u>	<u>I-195 RDC</u>	<u>RIPTA</u>	<u>RITBA</u>
<b>Liabilities and deferred inflows of resources</b>					
Current liabilities:					
Accounts payable	7,248	1,444	197	6,722	464
Notes payable	—	—	—	—	—
Due to primary government	—	—	—	2,295	8,932
Due to other component units	235	—	—	—	—
Unearned revenue	1,314	3,287	255	280	6,025
Other liabilities	9,082	10,193	857	9,079	8,568
Current portion of compensated absences	—	—	—	46	—
Current portion of long-term debt	18,163	1,249	1,790	—	6,220
Total current liabilities	<u>36,042</u>	<u>16,173</u>	<u>3,099</u>	<u>18,422</u>	<u>30,209</u>
Noncurrent liabilities:					
Due to primary government	45	—	—	8,025	—
Due to other component units	923	—	—	—	—
Unearned revenue	—	3,530	—	—	—
Notes payable	—	—	—	—	—
Loans payable	—	—	—	—	—
Obligations under capital leases	863	—	—	—	—
Net pension liability	1,697	305	—	78,513	—
Net OPEB liability	264	48	—	73,871	—
Other liabilities	—	1,803	—	9,602	—
Compensated absences	—	—	—	303	—
Bonds payable	253,315	7,808	31,990	—	206,594
Total noncurrent liabilities	<u>257,107</u>	<u>13,494</u>	<u>31,990</u>	<u>170,314</u>	<u>206,594</u>
Total liabilities	<u>293,149</u>	<u>29,667</u>	<u>35,089</u>	<u>188,736</u>	<u>236,803</u>
<b>Deferred inflows of resources</b>	<u>364</u>	<u>498</u>	<u>—</u>	<u>9,315</u>	<u>—</u>
<b>Net position (deficit)</b>					
Net investment in capital assets	265,518	849	487	127,697	51,908
Restricted for:					
Debt	15,733	—	8,253	—	85,688
Other	39,848	111,782	869	4,055	—
Other nonexpendable	—	—	—	—	—
Unrestricted	71,001	7,956	(34,483)	(129,324)	(165)
Total net position (deficit)	<u>\$ 392,100</u>	<u>\$ 120,587</u>	<u>\$ (24,874)</u>	<u>\$ 2,428</u>	<u>\$ 137,431</u>

(Continued)

**State of Rhode Island**  
**Combining Statement of Net Position**  
**Component Units**  
**June 30, 2021**  
**(Expressed in Thousands)**

	URI	RIC	CCRI	Other Component Units	Totals
<b>Assets and deferred outflows of resources</b>					
Current Assets:					
Cash and cash equivalents	\$ 163,863	\$ 25,490	\$ 22,005	\$ 100,489	\$ 410,478
Investments	—	—	—	414	3,383
Receivables (net)	66,025	11,407	8,091	28,251	128,544
Restricted assets:					
Cash and cash equivalents	—	—	500	666,958	811,409
Due from primary government	—	—	—	—	—
Investments	—	—	—	150,837	160,580
Receivables (net)	—	—	—	106,298	106,342
Other assets	—	—	71	44,573	51,032
Due from primary government	1,067	736	565	7,348	36,417
Due from other governments	—	—	—	4,190	4,203
Due from other component units	1,421	—	—	482	2,054
Inventories	3,161	—	461	2,264	7,637
Other assets	2,881	720	3,561	7,646	16,704
Total current assets	<u>238,418</u>	<u>38,353</u>	<u>35,254</u>	<u>1,119,750</u>	<u>1,738,783</u>
Noncurrent Assets:					
Investments	270,519	42,808	6,073	—	322,915
Receivables (net)	22,310	1,441	—	76,792	108,072
Restricted assets:					
Cash and cash equivalents	3,378	653	—	7,971	72,432
Investments	—	—	—	683,914	796,977
Receivables (net)	395	—	—	1,104,674	1,110,548
Other assets	26,796	1,183	70	1,293,516	1,322,489
Capital assets - nondepreciable	12,812	16,516	5,017	211,986	350,794
Capital assets - depreciable (net)	849,042	176,326	76,401	186,819	2,076,393
Due from other component units	—	—	—	923	923
Other assets, net of amortization	2,599	—	—	193,328	199,162
Total noncurrent assets	<u>1,187,851</u>	<u>238,927</u>	<u>87,561</u>	<u>3,759,923</u>	<u>6,360,705</u>
Total assets	<u>1,426,269</u>	<u>277,280</u>	<u>122,815</u>	<u>4,879,673</u>	<u>8,099,488</u>
<b>Deferred outflows of resources</b>	<u>30,334</u>	<u>9,818</u>	<u>8,049</u>	<u>19,822</u>	<u>95,865</u>

(Continued)

**State of Rhode Island**  
**Combining Statement of Net Position**  
**Component Units**  
**June 30, 2021**  
**(Expressed in Thousands)**

	URI	RIC	CCRI	Other Component Units	Totals
<b>Liabilities and deferred inflows of resources</b>					
Current liabilities:					
Accounts payable	22,427	10,220	7,492	22,933	79,147
Notes payable	—	151	—	74,710	74,861
Due to primary government	1,677	1,775	—	168	14,847
Due to other component units	1,421	—	—	398	2,054
Unearned revenue	15,188	4,115	2,977	8,970	42,411
Other liabilities	16,375	132	—	393,134	447,420
Current portion of compensated absences	1,543	4,138	3,713	600	10,040
Current portion of long-term debt	13,268	1,009	304	105,791	147,794
Total current liabilities	<u>71,899</u>	<u>21,540</u>	<u>14,486</u>	<u>606,704</u>	<u>818,574</u>
Noncurrent liabilities:					
Due to primary government	17,589	11,157	—	—	36,816
Due to other component units	—	—	—	—	923
Unearned revenue	—	—	—	1,378	4,908
Notes payable	—	328	—	182,196	182,524
Loans payable	248	—	—	12,882	13,130
Obligations under capital leases	11	—	—	137	1,011
Net pension liability	115,632	40,248	31,746	37,124	305,265
Net OPEB liability	34,020	17,633	13,834	22,056	161,726
Other liabilities	7,823	1,589	—	410,745	431,562
Compensated absences	20,507	1,787	804	2,939	26,340
Bonds payable	265,733	11,905	637	2,011,461	2,789,443
Total noncurrent liabilities	<u>461,563</u>	<u>84,647</u>	<u>47,021</u>	<u>2,680,918</u>	<u>3,953,648</u>
Total liabilities	<u>533,462</u>	<u>106,187</u>	<u>61,507</u>	<u>3,287,622</u>	<u>4,772,222</u>
<b>Deferred inflows of resources</b>	<u>24,115</u>	<u>10,623</u>	<u>6,869</u>	<u>11,471</u>	<u>63,255</u>
<b>Net position (deficit)</b>					
Net investment in capital assets	596,737	166,518	80,476	379,654	1,669,844
Restricted for:					
Debt	—	—	—	282,886	392,560
Other	172,725	12,993	4,421	766,421	1,113,114
Other nonexpendable	123,932	29,443	3,093	—	156,468
Unrestricted	5,632	(38,666)	(25,502)	171,441	27,890
Total net position (deficit)	<u>\$ 899,026</u>	<u>\$ 170,288</u>	<u>\$ 62,488</u>	<u>\$ 1,600,402</u>	<u>\$ 3,359,876</u>

(Concluded)

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



**State of Rhode Island**  
**Combining Statement of Activities**  
**Component Units**  
**For the Fiscal Year Ended June 30, 2021**  
**(Expressed in Thousands)**

	<b>RIAC</b>	<b>RICC</b>	<b>I-195 RDC</b>	<b>RIPTA</b>	<b>RITBA</b>	<b>URI</b>	<b>RIC</b>	<b>CCRI</b>	<b>Other Component Units</b>	<b>Totals</b>
<b>Expenses</b>	\$ 71,150	\$ 141,941	\$ 3,310	\$ 133,744	\$ 33,454	\$ 593,805	\$ 157,215	\$ 132,850	\$ 312,036	\$ 1,579,505
<b>Program revenues:</b>										
Charges for services	43,538	6,799	543	18,334	19,353	336,427	61,340	33,840	192,930	713,104
Operating grants and contributions	12,466	141,123	3,004	114,531	—	267,954	97,949	110,685	95,161	842,873
Capital grants and contributions	26,882	—	—	19,920	14,273	7,689	13,459	3,304	58,409	143,936
Total program revenues	82,886	147,922	3,547	152,785	33,626	612,070	172,748	147,829	346,500	1,699,913
Net (expenses) revenues	11,736	5,981	237	19,041	172	18,265	15,533	14,979	34,464	120,408
<b>General revenues:</b>										
Interest and investment earnings	129	1,498	10	(1)	27	54,876	8,620	1,323	50,594	117,076
Miscellaneous revenue	28	40,303	—	—	186	—	664	—	2,306	43,487
Gain (Loss) on sale of capital assets									(2,316)	(2,316)
Total general revenue	157	41,801	10	(1)	213	54,876	9,284	1,323	50,584	158,247
Change in net position	11,893	47,782	247	19,040	385	73,141	24,817	16,302	85,048	278,655
<b>Net position (deficit) - beginning as restated</b>	<u>380,207</u>	<u>72,805</u>	<u>(25,121)</u>	<u>(16,612)</u>	<u>137,046</u>	<u>825,885</u>	<u>145,471</u>	<u>46,186</u>	<u>1,515,354</u>	<u>3,081,221</u>
<b>Net position (deficit) - ending</b>	<u>\$ 392,100</u>	<u>\$ 120,587</u>	<u>\$ (24,874)</u>	<u>\$ 2,428</u>	<u>\$ 137,431</u>	<u>\$ 899,026</u>	<u>\$ 170,288</u>	<u>\$ 62,488</u>	<u>\$ 1,600,402</u>	<u>\$ 3,359,876</u>

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

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## Note 1. Summary of Significant Accounting Policies

### A. Basis of Presentation

The accompanying basic financial statements of the State of Rhode Island (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 ACFR, 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.

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*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](http://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 ACFR, 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](http://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 02908, or at [www.commerceri.com](http://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 Executive Director, I-195 Redevelopment District, 315 Iron Horse Way, Suite 101, Providence, RI 02908, or at [www.195district.com](http://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](http://www.ripta.com).



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### *Rhode Island Turnpike and Bridge Authority (RITBA)*

This authority was created by the General Assembly, 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](http://www.ritba.org).

### *University and Colleges*

The State's University and Colleges include the University of Rhode Island (URI), Rhode Island College (RIC) and the Community College of Rhode Island (CCRI). The Council on Postsecondary Education is vested with the responsibility of providing oversight for Rhode Island College (RIC) and the Community College of Rhode Island (CCRI), along with the Office of the Postsecondary Commissioner. URI is governed by the URI Board of Trustees. 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](http://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 purpose of administering 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](http://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

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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](http://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 02908, or at [www.commerceri.com](http://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](http://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](http://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](http://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](http://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 assists the State with the administration of two funding programs to assist school districts with capital project funding. Funding from the School Building Authority Capital Fund (SBACF) provides grants and loans for high priority local school capital projects in communities with limited financial resources. The State fiscal year 2019 budget legislation authorized a \$250M Statewide School Construction Bond which was approved by voters in the November 2018 election. The bond proceeds allow RIDE/SBA to provide LEAs who have been approved for Necessity of School Construction, with upfront funding as opposed to waiting until their project is completed to receive state aid. RIHEBC has administrative duties related to the management and custody of monetary assets of the SBACF and School Construction Bond Proceeds (once drawn from the State's Trustee), including establishing a trust to hold related funds, creating and maintaining accounting records and the distribution and management of award and loan programs. RIHEBC was determined to be a discretely presented component unit largely due to its support in administering these school construction funding programs.

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, 33 Broad Street, Suite 200, Providence, RI 02903 or at [www.rihebc.com](http://www.rihebc.com).

#### ***Fiduciary Component Units***

The following entities qualify as fiduciary component units of the State of Rhode Island and are reported in the State's fiduciary funds in accordance with GAAP prescribed by GASB:

*The Rhode Island Employees' Retirement System (ERS)* (pension trust and defined contribution plans) – ERS administers pension plans covering various public employees of the State and its political subdivisions. A copy of the annual report for ERS can be obtained by writing to the Office of the General Treasurer, 50 Service Avenue, Warwick, RI 02886.

*The Rhode Island State Employees' and Electing Teachers OPEB System (OPEB System)* (OPEB Trust) is administered by the State of Rhode Island OPEB Board. The OPEB System administers the State's six defined benefit OPEB plans. A copy of the financial statements can be obtained by writing to the State Controller's Office, One Capitol Hill, Providence, RI 02908.

*The Ocean State Investment Pool* (Investment Trust Fund) is administered by the Office of the General Treasurer and because of the State's trustee responsibilities for the portion of the investment pool owned by participants external to the reporting entity, GAAP requires that activity to be reported as an investment trust fund. 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.

*The Rhode Island Higher Education Savings Trust* (RIHEST) and *ABLE Consortium Trust* (ABLE) are also administered by the Office of the General Treasurer. RIHEST allows families to save money for qualified higher education expenses on a tax-advantaged basis. ABLE allows for families a tax-advantaged means to save money for disability related expenses. Under GAAP, these trust funds are required to be reported as private purpose trust funds. A copy of the annual report for RIHEST or ABLE can be obtained by writing to the Office of the General Treasurer, 50 Service Avenue, Warwick, RI 02886.

*The HealthSource RI Trust* (HSRI) is administered by the Rhode Island Health Benefits Exchange (HBE), a department within the State of Rhode Island. HSRI collects health insurance premium payments for qualifying plans purchased through the HBE and remits those payments to the respective insurers providing the coverage to qualifying employers and individuals. Under GAAP, these trust funds are required to be reported as private purpose trust funds. A copy of the annual report for HSRI can be obtained by writing to the Office of the General Treasurer, 50 Service Avenue, Warwick, RI 02886.

Because of the State's trustee responsibilities for these systems, plans, and trusts, GAAP requires them to be reported as fiduciary activities of the reporting entity rather than discretely presented component units.

In accordance with GAAP, fiduciary funds and discretely presented component units that are fiduciary in nature are excluded from the government-wide financial statements.

### ***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**

*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.

*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.

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## 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.

HealthSource RI Trust was established for the purpose of collecting health and dental insurance premium payments from qualified employers and individuals and remitting such payments to issuers of Qualified Health Plans and Qualified Dental Plans offered through the Rhode Health Benefits Exchange (HSRI).

The ABLE Consortium Trust was established to facilitate, in an efficient and cost effective manner, the investment of contributions from account owners in ABLE savings accounts which qualify under section 529A of the Internal Revenue Code. ABLE accounts allow individuals with disabilities and their families a tax-advantaged way to save money for disability related expenses.

*Custodial Funds* - These funds account for assets held by the State pending distribution to others including confiscated property, assets pledged to the State as required by statute, funds held for the use of hospital patients and individuals with developmental disabilities, workers' compensation insurance bond deposits, funds held for the use of inmates, and unclaimed property.



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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](http://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.

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#### 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. Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenues when entitlement occurs. All federal reimbursement-type grants are recorded as revenues when the related allowable expenditures are incurred and all applicable eligibility requirements are met and federal grant authority is received. Federal grants also include nonmonetary transactions for food commodities and vaccines. Nonmonetary commodity and vaccine revenues and expenditures are valued at their federally reported value. When federal funds are received in advance of meeting eligibility requirements or incurrence of allowable expenditures, amounts are reflected as unearned revenue.

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.

Custodial funds are a type of fiduciary fund used to account for the assets held for distribution by the State as a custodian for another entity for which the government has custodial responsibility and accounts for the flow of assets. Custodial funds have no measurement focus.

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.



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## 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, donated works of art and similar items are reported at acquisition value. Acquisition value is defined as the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. 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:

<u>Asset Category</u>	<u>Capitalization Thresholds</u>	<u>Estimated Useful Lives</u>
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.

The State recognizes and records liabilities and deferred outflows of resources related to legal obligations to perform future asset retirement activities in accordance with GASB Statement No. 83 *Certain Asset*

*Retirement Obligations.* The related deferred outflows of resources are amortized over the estimated useful remaining life of the underlying 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 7D).

### **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 18, 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, 2020 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 18 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. Deferred Outflows of Resources**

Deferred outflow of resources represents a consumption of net position by the government that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources are reported in the applicable governmental or business-type activities columns, or in the component units column on the government-wide Statement of Net Position. See Note 8 for a disaggregation of deferred outflows. Deferred outflows of resources of governmental funds, proprietary funds, and discrete component units are reported in detail in their respective fund statements.

#### **T. Deferred Inflows of Resources**

Deferred inflows of resources represent an acquisition of net position that applies to a future period, and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources are reported in the applicable governmental or business-type activities columns or in the discrete component units column on the government-wide Statement of Net Position. See Note 8 for a disaggregation of deferred inflows. Deferred inflows of resources of governmental funds, proprietary funds, and discrete component units are reported in detail in their respective fund statements.

#### **U. 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.

#### V. Recently Issued Accounting Standards

During the fiscal year ended June 30, 2021, the State adopted the following new accounting standards issued by GASB:

- GASB Statement No. 84, *Fiduciary Activities*
- GASB Statement No. 98, *Renaming the Annual Comprehensive Financial Report*

In fiscal year 2021, the State implemented Governmental Accounting Standards Board (GASB) Statement No. 98, *The Annual Comprehensive Financial Report*. The objective of GASB 98 is to establish the term annual comprehensive financial report and its acronym ACFR. This new term and its acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. Replacing the term had no impact on the effort required to prepare, audit, or use GAAP-based financial statements.

In fiscal year 2021, the State implemented GASB Statement No. 84, *Fiduciary Activities (GASB 84)*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Fiduciary fund statements should include pension trusts, investment trusts, private purpose trusts, and custodial funds. GASB 84 resulted in the reporting of custodial funds (largely replacing agency funds) in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position. The State's consideration of GASB 84 identified the ABLE Trust as a private purpose trust fund of the State that requires reporting in the State's fiduciary fund financial statements. The adoption of GASB 84 resulted in the restatement of net position in the government-wide financial statements, fund balance in the General Fund, net position in component unit financial statements, and the fiduciary financial statements. See Note 10 for complete details regarding restatements resulting from the implementation of GASB 84.

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

GASB Statement No. 87, *Leases*, will be effective for reporting periods beginning after June 15, 2021. 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. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, will be effective for reporting periods beginning after December 15, 2020. 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.

GASB Statement No. 91, *Conduit Debt Obligations*, will be effective for reporting periods beginning after December 15, 2021. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. Additionally, this Statement improves the comparability of financial reporting for issuers by eliminating the option to recognize a liability for a conduit debt obligation.

GASB Statement No. 92, *Omnibus*, will be effective for reporting periods beginning after June 15, 2021. The objective of this Statement is to improve comparability in financial reporting for leases, pensions, OPEB, and asset retirement obligations.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, the removal of LIBOR as an appropriate benchmark interest rate will be effective for reporting periods ending after December 31, 2021. All other requirements of this Statement will be effective for reporting periods beginning after June 15, 2020. The objective of this Statement is to enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements.

GASB Statement No. 94, *Public-Private and Public-Private Partnerships and Availability Payment Arrangements*, will be effective for reporting periods beginning after June 15, 2022. The objective of this Statement is to provide accounting and financial reporting guidance for arrangements in which the governmental entity (the transferor) contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*, will be effective for reporting periods beginning after June 15, 2022. The objective of this Statement is to provide accounting and financial reporting guidance for transactions in which a government entry contracts with another party for the right to use their software. A right-of-use and a corresponding liability would be recognized for SBITA's.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, will be effective for reporting periods beginning after June 15, 2021. The objective of this Statement is to provide financial reporting consistency in which the potential component unit does not have a governing board and the primary government performs the duties that the governing board would perform. In the absence of a governing board of the potential component unit, the situation should be treated the same as the primary government appointing a majority of the potential component unit's governing board.

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



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## 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 100% 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 100% of deposits, regardless of maturity. None of the cash deposits of the primary government were required to be collateralized at June 30, 2021 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, 2021, of the \$551.0 million invested, \$302.5 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, 2021:



**Pooled cash equivalents (at amortized cost)**

Financial Company Commercial Paper	\$ 170,099
Asset Backed Commercial Paper	36,406
U.S. Government Agency Repurchase Agreement	299,478
U.S. Treasury Debt	2,000
Certificates of Deposit	5,000
Non-Negotiable Time Deposit	35,000
US Treasury Repurchase Agreement	3,000
Total Investments	<u>550,983</u>
Add: assets in excess of other liabilities	36
Total investment pool	<u>551,019</u>

**Less: funds held by fiduciary funds and discretely presented component units**

Amounts held by fiduciary trust funds:

Pension trust	328
OPEB trust	133

Amounts held by discretely presented component units:

URI	3,809
RIIB	—
RIC	6,549
RIIRBA	1,069
RIHEBC	503
RIPTA	6,452

Amounts held for external parties

55,408

**Primary government pooled cash equivalents**

\$ 476,768

**Add: other primary government cash equivalents and investments**

Money Market Mutual Funds	588,550
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**Total primary government cash equivalents and investments**\$ 1,065,318

Cash equivalents and investments	\$ 1,065,318
Cash deposits and interest bearing deposits	1,909,659
Total cash, cash equivalents and investments	<u>\$ 2,974,977</u>

Statement of Net Position

Cash and cash equivalents	\$ 2,921,064
Restricted cash and cash equivalents	53,913
Total cash, cash equivalents and investments	<u>\$ 2,974,977</u>

Of the State's restricted cash and cash equivalents totaling \$53.9 million, \$50.4 million is held by the Tobacco Settlement Financing Corporation and \$3.5 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, 2021, 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	\$170,114	\$ 170,099	\$ 36,099	\$ 99,024	\$ 28,985	\$ 5,991
Asset Backed Commercial Paper	36,407	36,406	16,549	19,857	—	—
U.S. Government Agency Repurchase Agreements	299,478	299,478	299,478	—	—	—
U.S. Treasury Debt	2,001	2,000	—	1,000	1,000	—
U.S. Treasury Repurchase Agreement	3,000	3,000	3,000	—	—	—
Certificates of Deposit	5,000	5,000	—	5,000	—	—
Non-Negotiable Time Deposit	35,000	35,000	35,000	—	—	—
	<u>\$551,000</u>	<u>\$ 550,983</u>	<u>\$390,126</u>	<u>\$124,881</u>	<u>\$ 29,985</u>	<u>\$ 5,991</u>

At June 30, 2021 information on investment ratings for pooled cash equivalents and investments (expressed in thousands) is as follows:

Investment Type	Quality Ratings (1)				
	At Fair Value	Total Amortized Cost	A-1+	A-1	A-2
Financial Company Commercial Paper	\$ 170,114	\$ 170,099	\$ 34,285	\$ 130,315	\$ 5,499
Asset Backed Commercial Paper	36,407	36,406	—	36,406	
U.S. Government Agency Repurchase Agreements	299,478	299,478	294,478	5,000	
U.S. Treasury Debt	2,001	2,000	2,000	—	
U.S. Treasury Repurchase Agreement	3,000	3,000	1,000	2,000	
Certificates of Deposit	5,000	5,000	5,000	—	
Non-Negotiable Time Deposit	35,000	35,000	—	35,000	
	<u>\$ 551,000</u>	<u>\$ 550,983</u>	<u>\$ 336,763</u>	<u>\$ 208,721</u>	<u>\$ 5,499</u>

(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, 2021, 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 Investments Money Market Government Portfolio Institutional Class	\$ 534,470	Money Market	Aaa-mf	28
Fidelity Institutional Money Market Government Portfolio Class I and III	2,953	Money Market	AAA-mf	28
BlackRock Federal Fund Institutional Shares	447	Money Market	Aaa-mf	42
GS Financial Square Treasury Instruments Fund	50,680	Money Market	Aaa-mf	59
	<u>\$ 588,550</u>			

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, 2021 and the breakdown by maturity are as follows:

Investment Type	Fair Value	Less Than 1 year	1-5 years	Quality Rating
U.S. Treasuries	\$ 2,957	\$ —	\$ 2,957	—
U.S. Government Agencies	9,553	3,369	6,184	Aaa
Money Market Funds	230,983	230,983	—	Aaa-mf
Commercial Paper	526	—	526	P-1
Negotiable Certificates of Deposit	—	—	—	P-1
Fixed Income	15,721	6,563	9,158	See Table
Investment Contracts	2,682	—	2,682	N/A
	<u>262,422</u>	<u>\$ 240,915</u>	<u>\$ 21,507</u>	
Cash/Cash Reserve	11,404			
Funds on Deposit with fiscal agent	<u>\$ 273,826</u>			

Cash includes \$11.4 million in uninsured and uncollateralized cash reserve funds on deposit with the fiscal agent.

Quality Rating	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Total
Fixed Income	\$ 3,727	\$ 707	\$ 550	\$ 901	\$ 3,375	\$ 4,586	\$ 1,360	\$ 515	\$15,721

The following (expressed in thousands) represents the fair value of investments by type held by the fiscal agent at June 30, 2021:

	Fair Value June 30, 2021	Quoted Prices in	Significant Other
		Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)
Investments at Fair Value			
Debt Securities			
U.S. Treasuries	\$ 2,957	\$ 2,957	\$ —
U.S. Government Agencies	9,553	—	9,553
Commercial Paper	526	—	526
Fixed Income	15,721	—	15,721
Total investments by fair value level	<u>\$ 28,757</u>	<u>\$ 2,957</u>	<u>\$ 25,800</u>
Investments Measured at Net Asset Value (NAV)			
Money Market Mutual Funds	230,983		
Investments not Subject to Leveling Requirements			
Guaranteed Investment Contracts	<u>2,682</u>		
Total Funds on Deposit with Fiscal Agent	<u>\$ 262,422</u>		

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 \$158 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
Money Market	Fidelity Investments Money Market Government Portfolio Institutional Class	\$ 534,470	42.00 %

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## 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 and collective unit trusts include international equity index funds and an emerging markets debt fund. 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, Crisis Protection Class - Trend Following, and emerging markets debt) 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 nonpublicly 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, crisis protection class - trend following investments, and emerging markets debt represented 6.2%, 14.4%, 5.2%, 2.4%, 4.6% and 1.8% respectively of the total reported fair value of all pooled pension trust investments at June 30, 2021.

**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.

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

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## Cash and Cash Equivalents

At June 30, 2021, the carrying amount of pension trust cash deposits was approximately \$9.5 million and the bank balance was approximately \$9.9 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 100% 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 100% of deposits, regardless of maturity. None of the System's deposits were required to be collateralized at June 30, 2021 (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 - Pooled Investment Trust

### (a). General

The custodian bank holds assets of the 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 updated on January 22, 2020 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 System leverages the services of actuaries and consultants to provide guidance regarding actuarial matters, asset allocation, and investment policy development. The SIC manages the investment program pursuant to the investment policy, develops asset class guidelines, monitors and evaluates performance, and makes determinations regarding the retention of managers. Professional investment managers are selected by the SIC to manage portfolios in accordance with investment management agreements.

The following was the SIC's adopted asset allocation policy targets as of June 30, 2021:

Asset Class	Long-Term Target Asset Allocation
<b>GROWTH</b>	
Global Equity	40.0%
Private Growth	15.0%
<i>subtotal</i>	<u>55.0%</u>
<b>INCOME</b>	<u>12.0%</u>
<b>STABILITY</b>	
Crisis Protection Class	10.0%
Inflation Protection	8.0%
Volatility Protection	15.0%
<i>subtotal</i>	<u>33.0%</u>
Total	<u><u>100.0%</u></u>

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, 2021:

<u>Investment Type</u>	<u>Fair Value (in thousands)</u>
Cash and Cash Equivalents:	
US Cash	\$ 49,412
Non-US Cash	4,111
Commercial Paper	4,249
Repurchase Agreements	77,700
Short-Term Collective Investment Funds	258,271
US Government Securities	745,747
US Government Agency Securities	163,097
Collateralized Mortgage Obligations	45,391
Corporate Bonds	699,596
Term Loans	194,008
Emerging Markets Debt - Collective Unit Trust	186,848
Commingled Funds - International Equity	1,299,793
Domestic Equity Securities	2,658,682
International Equity Securities	482,307
Equity Options - Private LLC Investment	259,245
Private Equity	1,509,546
Real Estate	545,388
Hedge Funds	653,376
Crisis Protection Class - Trend Following - Limited partnerships	485,478
Infrastructure	256,704
Derivatives:	
Futures	2,532
Credit Default Swaps	4,295
<b>Investments at Fair Value</b>	<b>\$ 10,585,776</b>
Investment receivable	366,363
Investment payable	(446,727)
<b>Total Pooled Investment Trust</b>	<b>\$ 10,505,412</b>

### (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 (in thousands)

Investments at Fair Value	Fair Value June 30, 2021	Quoted Prices in Active Market for Identical Assets (level 1)	Significant Other Observable Inputs (level 2)	Significant Unobservable Inputs (level 3)
<b>Equity Investments</b>				
Global Equity	\$ 3,140,989	\$ 3,140,989	\$ —	\$ —
	\$ 3,140,989	\$ 3,140,989	\$ —	\$ —
<b>Fixed Income</b>				
US Government Securities	\$ 745,746	\$ 733,793	\$ 11,953	\$ —
US Government Agency Securities	163,097	—	163,097	—
Corporate Bonds	699,596	—	699,596	—
Collateralized Mortgage Obligations	45,391	—	45,391	—
Term loans	194,008	—	—	194,008
	\$ 1,847,838	\$ 733,793	\$ 920,037	\$ 194,008
<b>Derivative Investments</b>				
Equity and Fixed Income Index Futures	\$ 2,532	\$ 2,532	\$ —	\$ —
Other Derivatives	4,295	—	4,295	—
	\$ 6,827	\$ 2,532	\$ 4,295	\$ —
<b>Commercial Paper</b>	\$ 4,249	\$ —	\$ 4,249	\$ —
<b>Total Investment at Fair Value Level</b>	\$ 4,999,903	\$ 3,877,314	\$ 928,581	\$ 194,008
<b>Investments Measured at Net Asset Value (NAV)</b>				
Money Market Mutual Funds	\$ 258,271			
Commingled Funds - International Equity	1,299,793			
Hedge Funds	653,376			
Private Equity	1,509,546			
Real Estate	545,388			
Infrastructure	256,704			
Emerging Markets Debt Collective Unit Trust	186,848			
Equity Options - Private LLC Investment'	259,245			
Crisis Protection Class - Trend Following	485,478			
	\$ 5,454,649			
<b>Cash and Cash Equivalents</b>				
US Cash	\$ 49,412			
Non US Cash	4,111			
Repurchase Agreements	77,700			
	\$ 131,223			
<b>Net Investment Receivable</b>	(80,363)			
<b>Total Pooled Investment Trust</b>	\$ 10,505,412			

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 (in thousands).

	Fair Value	Unfunded Commitments	Redemption (if currently eligible)	Redemption Notice Period
Money Market Mutual Funds (1)	\$ 258,271	\$ —	daily	none
Commingled Funds - International Equity (2)	1,299,793	—	daily	see note below
Hedge Funds (3)	653,376	—	see note below	see note below
Private Equity (4)	1,509,546	1,185,833	see note below	see note below
Real Estate (5)	545,388	151,649	see note below	see note below
Private Infrastructure Investments (6)	256,704	280,291	see note below	see note below
Crisis Protection Class - Trend Following (7)	485,478	—	see note below	see note below
Emerging Markets Debt - Collective Unit Trust (8)	186,848	—	see note below	see note below
Equity Options - Private LLC investment (9)	259,245	—	see note below	see note below
	<u>\$ 5,454,649</u>	<u>\$ 1,617,773</u>		

**(1) Short-Term Collective Investment 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 investments reflect 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 Short-Term Collective Investment Funds.

**(2) Commingled Funds** – consist of three international equity index funds which are intended to replicate the performance of a specific index; e.g., MSCI EAFE. 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 be redeemed daily.

**(3) Hedge Funds** – this portfolio is comprised of 9 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, 2021. Of the underlying holdings within the hedge funds approximately 64% 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 fund assets are available for redemption on a monthly, quarterly, semi-annual or annual basis, and are subject to notice periods which vary by fund and range from 30 days to 75 days. Some funds limit redemptions to 25% of invested capital on any one redemption date.

**(4) Private equity** – these 116 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, 2021.

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 17 limited partnership 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, 2021.

With the exception of four 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 nine 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, 2021.

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, 2021. 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.

**(8) Emerging Markets Debt – Collective Unit Trust** – This collective unit trust seeks to generate attractive returns relative to an emerging markets debt blended benchmark. The strategy seeks to take advantage of investment opportunities across emerging markets fixed income spectrum, including hard and local currency denominated sovereign, quasi sovereign and corporate debt, and their derivatives. Currencies are used both to manage risk and enhance return.

The fair value of the collective unit trust has been determined using the NAV per share of the investments as reported by the manager of the collective trust at June 30, 2021.

This investment includes monthly liquidity provisions (first business day of the month) with notice required by the 22nd of the prior month.

**(9) Equity Options – Private LLC Investment** – The fund seeks to achieve its goal primarily through a strategy of writing exchange-traded put options on the S&P 500® Index. These options are fully collateralized by short duration U.S. Treasury securities. The advisor attempts to generate returns through the receipt of option premiums from selling puts, as well as through investments in short duration fixed income instruments, which collectively are intended to reduce volatility relative to what it would be if the fund held the underlying equity index on which the options are written.

The fair value of the equity options – private LLC investment has been determined using the NAV per share of the investments as reported by the general partner at June 30, 2021. The underlying investments at June 30, 2021, which consist of equity options and fixed income investments were publicly traded.

This investment includes monthly liquidity provisions with 7 business days' notice.

### (c). Rate of Return

For the year ended June 30, 2021, 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, 2021	27.67%	27.21%	27.56%	27.08%	27.15%	15.33%	29.73%

### (d). Interest Rate Risk

Interest rate risk is the possibility that the value of a fixed income security will decline due to changes in market interest rates. Due to its significant holdings of fixed income securities, the System manages its investment exposure to interest rate risk by comparing its fixed income and cash managers' portfolio-level and security-level interest rate sensitivities against a predetermined benchmark index based on that manager's mandate. In general, the System uses duration (in years) to measure interest rate sensitivity. However, for its Liquid Credit managers, the System uses effective duration, which takes into effect the embedded optionality, to measure the sensitivity of its investments to changes in interest rates. In some cases, the System also sets absolute restrictions with respect to effective duration or maturity for

individual securities or portfolios for manager portfolios. The interest rate risk policies currently utilized by the System vary by asset class which include Investment Grade Fixed Income, Liquid Credit, Long Duration Treasuries, Inflation-Linked Bonds, CPC Enhanced Cash Portfolio, and Strategic Cash.

The fixed income indices currently used by the System are:

- 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
- ICE BofA ML US Treasury Notes 0-1 Year
- Emerging Market Debt Custom BM: 50% JPM EMBI Global Diversified Index + 50% JPM GBI-EM Global Diversified Index
- Bloomberg Barclays US Corporate Bond Index
- Bloomberg Barclays Securitized MBS/ABS/CMBS Index

At June 30, 2021, no fixed income manager was outside of their policy guidelines.

The following table shows the System's fixed income investments (in thousands) by type, fair value and the effective duration at June 30, 2021:

<u>Investment Type</u>	<u>Fair Value (in thousands)</u>	<u>Effective Duration</u>
US Government Agency Securities	\$ 163,097	3.79
US Government Securities	745,747	10.30
Collateralized Mortgage Obligations	45,391	3.45
Corporate Bonds	699,596	5.23
Term Loans	194,008	1.38
Emerging Market Debt	186,848	6.38
Total Fixed Income	<u>\$ 2,034,687</u>	6.67

The System had investments at June 30, 2021 totaling \$258 million in short-term collective investment funds. The cash-equivalent type investments held in those funds had a weighted average maturity of 69 days at June 30, 2021. The fund, by policy, holds only high-grade, highly liquid cash equivalent-type investments.

Repurchase agreements are secured with collateral held at a custodian bank. The System enters into repurchase agreements to earn interest on short-term funds. The System's repurchase agreements outstanding at June 30, 2021 had maturities of one to two days.

The System's investment in commercial paper totaling \$4,248,566 at June 30, 2021 had maturities ranging from 34 to 76 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

Credit risk is the possibility of a loss due to the failure of a counterparty to repay a loan or meet another contractual obligation. The System may be exposed to credit risk with respect to its fixed income investments. The System manages its credit risk by setting credit rating criteria to govern the investment activities of its fixed income managers at the portfolio and security level. Ratings criteria may be expressed on a relative basis against predetermined benchmark index or on an absolute basis based on that manager's mandate. If a security is not rated by any Rating Agency, the internal rating assigned by the investment manager or an affiliate (Internal Rating) will be used. The credit risk policies currently utilized by the System vary by asset class and 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, 2021 is as follows (in thousands):

Moody's Quality Rating	Agency	CMO	Corporate	Term Loans	Grand Total
A1	\$ —	\$ 940	\$ 29,538	\$ —	\$ 30,478
A2	—	4,564	63,252	—	67,816
A3	—	426	41,482	—	41,908
Aa1	—	2,226	7,145	—	9,371
Aa2	—	7,580	30,500	—	38,080
Aa3	—	3,184	14,152	—	17,336
Aaa	134,457	25,172	59,154	—	218,783
B1	—	—	34,377	59,168	93,545
B2	—	—	34,952	63,727	98,679
B3	—	—	25,792	17,164	42,956
Ba1	—	265	36,955	10,598	47,818
Ba2	—	—	25,630	10,913	36,543
Ba3	—	—	29,586	14,873	44,459
Baa1	—	—	53,178	4,920	58,098
Baa2	—	—	81,285	—	81,285
Baa3	—	—	84,911	529	85,440
Caa1	—	—	14,391	3,372	17,763
Caa2	—	—	7,444	—	7,444
Caa3	—	—	1,427	—	1,427
Not Rated	28,640	1,034	24,445	8,744	62,863
<b>Grand Total</b>	<b>\$ 163,097</b>	<b>\$ 45,391</b>	<b>\$ 699,596</b>	<b>\$ 194,008</b>	<b>\$ 1,102,092</b>

*Ratings provided by Moody's Investors Service*

An emerging market debt portfolio totaling \$186,847,642 at June 30, 2021 and held within a collective unit trust had an overall average credit quality rating of Baa2 (Moody's).

Investments in commercial paper totaling \$4,248,566 at June 30, 2021 were rated P1 (Moody's).

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**(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, 2021, 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, 2021, is detailed in the following table. In addition to the foreign currency exposure highlighted in the following table, certain hedge fund investments may have foreign currency exposure.



**Foreign Currency Risk (in thousands)**

Currency	Commingled Funds	Equities	Emerging Market Debt	Private Equity	Cash	Futures	Corporate Bonds	Total
Australian Dollar	\$ 45,695	\$ 23,761	\$ (1,405)	\$ —	\$ (129)	\$ 6	\$ —	\$ 67,928
Brazilian Real	29,870	—	8,749	—	—	—	—	38,619
Canadian Dollar	73,650	61,560	(1,408)	1,705	(121)	(2)	—	135,384
Chilean Peso	2,215	—	3,285	—	—	—	—	5,500
Chinese Yuan	16,597	—	11,066	—	—	—	—	27,663
Colombian Peso	1,350	—	5,122	—	—	—	—	6,472
Czech Republic Koruna	689	—	4,404	—	—	—	—	5,093
Danish Krone	16,230	17,128	—	—	2	—	—	33,360
Egyptian Pound	458	—	1,361	—	—	—	—	1,819
Euro Currency	209,803	135,470	(2,001)	94,925	2,478	70	5,243	445,988
Great Britain Pound	—	48,702	—	—	330	17	—	49,049
Hong Kong Dollar	163,943	15,885	—	—	(80)	7	—	179,755
Hungarian Forint	1,449	—	4,680	—	—	—	—	6,129
Indian Rupee	57,326	—	915	—	—	—	—	58,241
Indonesia Rupiah	6,259	—	10,171	—	—	—	—	16,430
Israeli Shekel	2,152	—	—	—	—	—	—	2,152
Japanese Yen	147,810	96,248	—	—	766	19	—	244,843
Kazakhstani Tenge	—	—	390	—	—	—	—	390
Kuwaiti Dinar	2,893	—	—	—	—	—	—	2,893
Malaysian Ringgit	7,001	—	—	—	—	—	—	7,001
Mexican Peso	9,972	—	9,575	—	—	—	—	19,547
New Taiwan Dollar	79,121	—	—	—	—	—	—	79,121
New Zealand Dollar	1,526	5,457	(1,412)	—	5	—	—	5,576
Norwegian Krone	4,056	—	—	—	1	—	—	4,057
Pakistani Rupee	112	—	—	—	—	—	—	112
Peruvian Nouveau Sol	—	—	2,488	—	—	—	—	2,488
Philippine Peso	3,625	—	—	—	—	—	—	3,625
Polish Zloty	4,028	—	8,133	—	—	—	—	12,161
Qatari Real	3,535	—	—	—	—	—	—	3,535
Romanian leu	—	—	3,355	—	—	—	—	3,355
Russian Ruble	12,440	—	7,934	—	—	—	—	20,374
Saudi Riyal	16,371	—	—	—	—	—	—	16,371
Singapore Dollar	6,651	7,730	1,840	—	36	—	—	16,257
Swedish Krona	23,856	20,705	—	—	772	4	—	45,337
Swiss Franc	59,991	48,925	—	—	51	—	—	108,967
South African Rand	19,671	—	7,457	—	—	—	—	27,128
South Korean Won	74,683	—	924	—	—	—	—	75,607
Thailand Baht	9,050	—	9,197	—	—	—	—	18,247
Turkish Lira	1,448	—	1,390	—	—	—	—	2,838
United Arab Emirates Dirham	3,929	—	—	—	—	—	—	3,929
United Kingdom Pound Sterling	93,472	—	—	—	—	—	—	93,472
<b>Total</b>	<b>\$ 1,212,927</b>	<b>\$ 481,571</b>	<b>\$ 96,210</b>	<b>\$ 96,630</b>	<b>\$ 4,111</b>	<b>\$ 121</b>	<b>\$ 5,243</b>	<b>\$ 1,896,813</b>
United States Dollar	86,866	736	90,638					
<b>Grand Total</b>	<b>\$ 1,299,793</b>	<b>\$ 482,307</b>	<b>\$ 186,848</b>					

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**(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.

Additionally, the System is an investor in a private investment fund that writes collateralized put options on both U.S. indices, including the S&P 500® Index and the Russell 2000® Index, and exchange traded funds. The advisor attempts to generate returns through the receipt of option premiums from selling puts, as well as through investments in fixed income instruments, which collectively are intended to reduce volatility relative to what it would be if the fund held the underlying equity index on which the options are written.

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 *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 summarize the System's exposure to specific derivative investments at June 30, 2021.

Investment Derivative Instruments	Change in fair value included in investment income	Fair Value at June 30, 2021	Notional Amount
Fixed income futures - long	\$ 2,204	\$ 2,260	\$ 226,400
Equity index futures - long	(251)	377	23,527
Equity index futures - short	349	(104)	(41,755)
Credit default swaps (index)	4,294	4,295	—
<b>Total</b>	<b>\$ 6,596</b>	<b>\$ 6,828</b>	
Foreign Currency Forward Contracts Payable			
Pending payable (liability)		\$ 1,025	
Pending receivable (asset)		(53)	
Total		\$ 972	

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, 2021 was \$971,983. 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 five counterparties were Aa2 (Moody's) and one counterparty was Aa3 (Moody'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.

The majority (98%) of investments held by participants in the defined contribution plan are target date retirement funds, equity or fixed income 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 funds seek to replicate the price and yield performance of a particular index.

The target retirement date and equity and fixed income funds are priced daily based on the traded prices of the underlying securities held within the funds. There are no withdrawal limitations for these 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 (approximately 2% of total defined

contribution plan investments) 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, 2021, all non-annuity assets, including mutual funds, that are traded and held in retirement plans by TIAA were held at TIAA, FSB (formerly TIAA-CREF Trust Company, FSB) as custodian/trustee.

The majority of the defined contribution plan investment options are funds that invest in diversified portfolios of securities including equity and fixed-income investments.

Fixed income funds (approximately 2% of total defined contribution plan investments) are subject to interest rate, inflation and credit risks. Target-date retirement 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. Funds may have exposure to foreign currency risk through investment in non-US denominated securities.

#### D. OPEB Trusts

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, 2021, the carrying amount of the OPEB System's cash deposits was approximately \$5.8 million and the bank balance was \$5.8 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 100% 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 100% 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, 2021, the OPEB System's cash deposits were either federally insured or collateralized.

The System also had cash equivalents totaling \$0.1 million invested in the Ocean State Investment Pool at June 30, 2021. See Note 2A for details.

## 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 fair 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 2021.

The following table presents the fair value of investments by type that are held within the pooled trust at June 30, 2021 (expressed in thousands):

	<u>June 30, 2021</u>
<b>Investments measured at the net asset value (NAV)</b>	
Commingled Funds - Domestic Equity Index Fund	\$ 349,844
Commingled Funds- Bond Index Fund	182,574
<b>Total Pooled Investment Trust</b>	<u>\$ 532,418</u>

**Commingled funds** – The fair values of these 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 index funds.

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.

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**Interest Rate Risk**

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

The overall duration of the OPEB System's investment in a commingled bond index fund was 6.59 years.

**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 average credit quality of the bonds within the commingled bond index fund was Aa2.

**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, 2021, 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 funds, the OPEB System indirectly holds derivative type instruments.

**E. Private Purpose Trusts**

The Tuition Savings Program had investments of approximately \$5.4 billion in a number of mutual funds and other investment vehicles as of June 30, 2021. These investments are categorized as Level 1 of the fair value hierarchy, with the exception of investment contracts totaling \$1.0 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 \$4.1 million in the Fidelity Balanced Fund as of June 30, 2021. These investments are categorized in Level 1 of the fair value hierarchy.

The ABLE Consortium Trust's investments consist of mutual funds and other investment vehicles as of June 30, 2021. These investments are categorized as Level 1 of the fair value hierarchy, with the exception of a High Yield Savings Account and FDIC-Insured Checking Account which are not subject to the fair value hierarchy.

**F. Custodial Funds**

As of June 30, 2021, all of the bank balances of Custodial 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, 2021 (expressed in thousands) consist of the following:

Primary Government	Taxes Receivable	Accounts Receivable	Notes and Loans Receivable	Gross Receivables	Less: Allowance for Uncollectibles	Total Receivable, Net	Due from Other Governments and Agencies
Governmental activities receivables	\$ 728,640	\$ 454,813	\$ 2,887	\$ 1,186,340	\$ (252,894)	\$ 933,446	\$ 428,264
Less current portion	706,527	444,207	776	1,151,510	(251,329)	900,181	406,309
Noncurrent portion	\$ 22,113	\$ 10,606	\$ 2,111	\$ 34,830	\$ (1,565)	\$ 33,265	\$ 21,955
Business-type activities receivables	\$ 69,136	\$ 38,811	\$ —	\$ 107,947	\$ (32,008)	\$ 75,939	\$ 8,719
Less current portion	69,136	38,811	—	107,947	(32,008)	75,939	8,719
Noncurrent portion	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

In addition to the receivables shown above as reflected on the financial statements, the Employment Security Fund has potential receivables related to fraudulent unemployment insurance claims paid in both fiscal years 2020 and 2021. The potential receivables relate to claims that have been categorized by the State's Department of Labor and Training as known fraud and suspected fraud. Recoveries of overpayments due to fraud are not recognized in the Employment Security Fund until collected, due to the unlikelihood of collection. When benefits are funded with federal appropriations, any amounts ultimately recovered would be due to the federal government.

The State is pursuing a claim against its insurance provider for reimbursement for the unemployment insurance claims paid which have been deemed fraudulent. Insurance policy limits total \$40 million. Management cannot estimate the likelihood of reimbursement from its insurer for the fraudulent claims and consequently no estimated recovery from the insurer is reflected on the financial statements of the Employment Security Fund at June 30, 2021.

**Note 4. Intra-Entity Receivables and Payables**

Intra-entity receivables and payables as of June 30, 2021 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	\$ —	\$ 144,239	Appropriations to other funds
Intermodal Surface Transportation	133	—	Transportation funding
Non-Major Funds			
RI Temporary Disability Insurance	—	350	Operating expenses
Historic Tax Credit Financing	20,600	—	Appropriations from other funds
Permanent School		10	Operating expenses
Bond Capital	420	—	Project funding
RI Capital Plan	118,800	—	Appropriations from other funds
COPS	—	23	Fees restricted for COPS debt service
Total Non-Major Funds	<u>139,820</u>	<u>383</u>	
Total Governmental Funds	<u>139,953</u>	<u>144,622</u>	
Proprietary Funds			
Enterprise Funds			
RI Lottery	1	3,358	Statutory transfer due to General Fund
RI Convention Center	958	—	Project funding and operating assistance
Employment Security Trust	1,786	—	Benefit payments
Total Enterprise Funds	<u>2,745</u>	<u>3,358</u>	
Internal Service Funds	5,544	262	Settlement of services rendered
Total Primary Government	<u>\$ 148,242</u>	<u>\$ 148,242</u>	



## Note 5. Capital Assets

The capital asset activity of the reporting entity for the year ended June 30, 2021 consists of the following (expressed in thousands):

### Primary Government

<b>Governmental Activities</b>	<b>Beginning Balance*</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets not being depreciated or amortized:				
Land	\$ 391,363	\$ 5,132	\$ (1,007)	\$ 395,488
Works of Art	4,385	—	—	4,385
Intangibles	182,036	1,420	—	183,456
Construction in progress	660,498	433,368	(389,504)	704,362
Total capital assets not being depreciated or amortized	<u>1,238,282</u>	<u>439,920</u>	<u>(390,511)</u>	<u>1,287,691</u>
Capital assets being depreciated or amortized:				
Land improvements	8,331	—	—	8,331
Buildings	891,078	5,322	(4,582)	891,818
Building Improvements	510,132	19,292	—	529,424
Furniture and equipment	361,788	18,268	(8,790)	371,266
Intangibles*	341,738	2,577	—	344,315
Infrastructure	4,948,464	324,969	—	5,273,433
Total capital assets being depreciated or amortized	<u>7,061,531</u>	<u>370,428</u>	<u>(13,372)</u>	<u>7,418,587</u>
Less accumulated depreciation or amortization for:				
Land improvements	4,300	256	—	4,556
Buildings	355,971	24,990	(1,076)	379,885
Building Improvements	238,006	9,249	(3,067)	244,188
Furniture and equipment	282,616	23,834	(8,418)	298,032
Intangibles*	120,041	32,920	—	152,961
Infrastructure	2,510,414	158,371	—	2,668,785
Total accumulated depreciation or amortization	<u>3,511,348</u>	<u>249,620</u>	<u>(12,561)</u>	<u>3,748,407</u>
Total capital assets being depreciated or amortized, net	<u>3,550,183</u>	<u>120,808</u>	<u>(811)</u>	<u>3,670,180</u>
Governmental activities capital assets, net **	<u>\$ 4,788,465</u>	<u>\$ 560,728</u>	<u>\$ (391,322)</u>	<u>\$ 4,957,871</u>

\*Including information system development costs.

\*\*Net governmental activities capital assets includes Internal Service Fund net capital assets totaling \$3.3 million at June 30, 2021.

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

General government	\$ 21,155
Health and human services	31,784
Education	4,682
Public safety	22,320
Natural resources	6,000
Transportation	163,679
Total depreciation or amortization expense - governmental activities	<u>\$ 249,620</u>

<b>Business-type Activities</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 46,808	\$ —	\$ —	\$ 46,808
Construction in progress	4,931	2,015	(4,147)	2,799
Total capital assets not being depreciated	<u>51,739</u>	<u>2,015</u>	<u>(4,147)</u>	<u>49,607</u>
Capital assets being depreciated:				
Buildings	276,453	1,268	(13)	277,708
Machinery and equipment	48,608	2,905	(195)	51,318
Intangibles	175	—	—	175
Total capital assets being depreciated	<u>325,236</u>	<u>4,173</u>	<u>(208)</u>	<u>329,201</u>
Less accumulated depreciation for:				
Buildings	174,921	9,599	(13)	184,507
Machinery and equipment	32,133	4,547	(185)	36,495
Intangibles	175	—	—	175
Total accumulated depreciation	<u>207,229</u>	<u>14,146</u>	<u>(198)</u>	<u>221,177</u>
Total capital assets being depreciated, net	<u>118,007</u>	<u>(9,973)</u>	<u>(10)</u>	<u>108,024</u>
Business-type activities capital assets, net	<u>\$ 169,746</u>	<u>\$ (7,958)</u>	<u>\$ (4,157)</u>	<u>\$ 157,631</u>
<b>Discretely Presented Component Units</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated or amortized:				
Land	\$ 126,534	\$ 3,500	\$ (269)	\$ 129,765
Construction in progress	158,770	123,618	(61,609)	220,779
Other	250	—	—	250
Total capital assets not being depreciated or amortized	<u>285,554</u>	<u>127,118</u>	<u>(61,878)</u>	<u>350,794</u>
Capital assets being depreciated or amortized:				
Buildings	2,801,139	55,580	(11,327)	2,845,392
Land Improvements	313,021	11,809	—	324,830
Leasehold Improvements	410	5	—	415
Machinery and equipment	528,949	33,048	(12,948)	549,049
Infrastructure	332,913	24,741	—	357,654
Total capital assets being depreciated or amortized	<u>3,976,432</u>	<u>125,183</u>	<u>(24,275)</u>	<u>4,077,340</u>
Less accumulated depreciation or amortization for:				
Buildings	1,172,175	83,783	(1,123)	1,254,835
Land Improvements	190,122	12,683	—	202,805
Leasehold Improvements	44	3	—	47
Machinery and equipment	384,178	32,843	(12,784)	404,237
Infrastructure	125,779	13,244	—	139,023
Total accumulated depreciation or amortization	<u>1,872,298</u>	<u>142,556</u>	<u>(13,907)</u>	<u>2,000,947</u>
Total capital assets being depreciated or amortized, net	<u>2,104,134</u>	<u>(17,373)</u>	<u>(10,368)</u>	<u>2,076,393</u>
Total capital assets, net	<u>\$ 2,389,688</u>	<u>\$ 109,745</u>	<u>\$ (72,246)</u>	<u>\$ 2,427,187</u>

## Note 6. Notes Payable and Line of Credit Arrangements

### Primary Government

**Notes Payable – Direct Borrowings – Line of Credit Agreements:** During fiscal 2020, the State entered into two \$150 million line of credit agreements with Bank of America, N.A. and Santander Bank, N.A., respectively, for a total \$300 million in available borrowings. At June 30, 2020, a total of \$10 million remained outstanding while a total of \$290 million remained available under the line of credit agreements. Drawings on the line of credit agreements constitute direct borrowing notes payable to the financial institutions and are unsecured.

The State maintained the minimum balance draw of \$5 million on each line until closing the credit agreements in February 2021 and March 2021 for the Santander and Bank of America lines of credit, respectively. The interest rates at the time of agreement closures were 1.15% and 0.75%, for the Santander and Bank of America lines of credit, respectively.

### **Notes Payable – Lines of Credit – Changes in Short-term Financing (expressed in thousands)**

Line of Credit Description	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021
Bank of America, N.A.	\$ 5,000	\$ —	\$ 5,000	\$ —
Santander Bank, N.A	5,000	—	5,000	—
Totals	<u>\$ 10,000</u>	<u>\$ —</u>	<u>\$ 10,000</u>	<u>\$ —</u>

**Discretely Presented Component Units**

Notes payable (expressed in thousands) at June 30, 2021 are as follows:

Component Units:

*Direct Borrowings*

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	\$ 479
R.I. Resource Recovery Corporation note payable to the host municipality, payable in equal installments over the next 14 years	1,893
R.I. Housing and Mortgage Finance Corporation bank notes and lines of credit, 0.00% to 6.25% interest, payable through 2048	<u>108,510</u>
	110,882
Less: current portion	<u>74,861</u>
Non-current portion	<u>\$ 36,021</u>

*Other*

R.I. Housing and Mortgage Finance Corporation federal bank note, 2.239% to 3.577% interest, payable from 2056 through 2060.	<u>\$ 146,503</u>
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**Direct borrowing – Line of credit arrangements**

*R.I. Housing and Mortgage Finance Corporation (RIHMFC)* - As of June 30, 2021, RIHMFC may borrow up to a maximum of \$135 million under various revolving loan agreements expiring between August 2021 and January 2022. Borrowings under the lines of credit are payable on demand and are unsecured. One of the lines of credit, in the outstanding amount \$2 million, has a variable interest rate, which was 1.650% at June 30, 2021. The outstanding remaining lines of credit, with borrowings of \$80 million at June 30, 2021 have fixed rates which range from .097% - 1.12%.

## Note 7. Long-Term Liabilities

### A. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2021 are presented in the following table (expressed in thousand):

	Beginning Balance*	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
<b>Governmental Activities</b>						
<i>Bonds Payable</i>						
General Obligation bonds (see section B)	\$ 1,263,280	\$ 223,560	\$ (175,175)	\$ 1,311,665	\$ 100,130	\$ 1,211,535
RICC Grant Anticipation Revenue bonds	572,260	—	(37,305)	534,955	39,170	495,785
RICC Rhode Island Motor Fuel Tax Revenue bonds	27,625	—	(3,980)	23,645	4,180	19,465
Tobacco Settlement asset-backed bonds	604,298	—	(23,365)	580,933	12,040	568,893
Accreted interest on TSFC bonds	123,055	13,965	—	137,020	—	137,020
RICC Historic Tax Credit bonds	104,870	—	(16,385)	88,485	16,830	71,655
Net unamortized premium/discount	236,013	16,755	(40,373)	212,395	—	212,395
Bonds payable, net	<u>2,931,401</u>	<u>254,280</u>	<u>(296,583)</u>	<u>2,889,098</u>	<u>172,350</u>	<u>2,716,748</u>
Obligation under capital leases (see section D)	157,870	—	(29,824)	128,046	23,628	104,418
Net unamortized premium/discount	12,492	—	(3,094)	9,398	—	9,398
Obligation under capital leases, net	<u>170,362</u>	<u>—</u>	<u>(32,918)</u>	<u>137,444</u>	<u>23,628</u>	<u>113,816</u>
Net pension liability (see note 18) **	2,286,088	24,198	—	2,310,286	—	2,310,286
Net pension liability-special funding (see note 18)**	1,366,538	—	(4,556)	1,361,982	—	1,361,982
Net OPEB liability (see note 19 C) **	421,757	—	(79,827)	341,930	—	341,930
Job Creation Guaranty Program obligation (see sec. G)	12,747	—	(12,747)	—	—	—
Compensated absences (see section I)**	91,191	145,929	(148,568)	88,552	75,463	13,089
Pollution remediation (see section H)	12,520	8,006	(5,552)	14,974	2,671	12,303
Other (see section L) *	64,222	18,579	(8,430)	74,371	264	74,107
Total Governmental Long-term Liabilities	<u>\$ 7,356,826</u>	<u>\$ 450,992</u>	<u>\$ (589,181)</u>	<u>\$ 7,218,637</u>	<u>\$ 274,376</u>	<u>\$ 6,944,261</u>
<b>Business-type Activities</b>						
Revenue bonds (see section B)	\$ 206,240	\$ 32,170	\$ (43,440)	\$ 194,970	\$ 13,995	\$ 180,975
Net unamortized premium/discount	1,134	—	(1,134)	—	—	—
Revenue bonds, net	<u>207,374</u>	<u>32,170</u>	<u>(44,574)</u>	<u>194,970</u>	<u>13,995</u>	<u>180,975</u>
Net pension liability **	20,850	802	—	21,652	—	21,652
Net OPEB liability **	3,990	—	(570)	3,420	—	3,420
Unearned revenue	11,787	1,739	(8,583)	4,943	2,921	2,022
Compensated absences (see section I)**	769	—	(164)	605	288	317
Other long-term liabilities	—	184	—	184	—	184
Total Business-type Long-term Liabilities	<u>\$ 244,770</u>	<u>\$ 34,895</u>	<u>\$ (53,891)</u>	<u>\$ 225,774</u>	<u>\$ 17,204</u>	<u>\$ 208,570</u>
<b>Component Units</b>						
Bonds payable (see section B)	\$ 2,738,908	\$ 405,189	\$ (444,836)	\$ 2,699,261	\$ 122,645	\$ 2,576,616
Bonds payable - direct placements	134,881	—	(12,650)	122,231	12,926	109,305
Net unamortized premium/discount	120,298	13,945	(13,074)	121,169	11,347	109,822
Refunding credits	(7,972)	—	835	(7,137)	(837)	(6,300)
Bonds payable, net	<u>2,986,115</u>	<u>419,134</u>	<u>(469,725)</u>	<u>2,935,524</u>	<u>146,081</u>	<u>2,789,443</u>
Loans payable (see section C)	13,888	4,760	(3,850)	14,798	1,668	13,130
Obligations under capital leases	1,934	—	(458)	1,476	465	1,011
Net pension liability**	302,394	7,821	(4,950)	305,265	—	305,265
Net OPEB liability**	165,265	6,020	(9,559)	161,726	—	161,726
Compensated absences (see section I)**	34,055	4,309	(1,984)	36,380	10,040	26,340
Due to primary government (see section K)	48,108	168	(6,872)	41,404	4,588	36,816
Unearned revenue	12,442	6,344	(301)	18,485	13,577	4,908
Due to component units	1,698	172	(314)	1,556	633	923
Other Long-term liabilities						
Arbitrage rebate (see section J)	1,591	—	(134)	1,457	—	1,457
Pollution remediation (see section H)	13,193	993	—	14,186	936	13,250
Other liabilities (see section L)	391,991	82,045	(47,786)	426,250	9,395	416,855
Total Component Units Long-term Liabilities	<u>\$ 3,972,674</u>	<u>\$ 531,766</u>	<u>\$ (545,933)</u>	<u>\$ 3,958,507</u>	<u>\$ 187,383</u>	<u>\$ 3,771,124</u>

\*\*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, 2021, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government				Component Units			
	Governmental Activities		Business Type Activities		Other		Direct Placements	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 172,350	\$ 104,480	\$ 13,995	\$ 7,833	\$ 122,645	\$ 92,393	\$ 12,926	\$ 3,376
2023	174,200	96,926	20,250	7,464	127,983	88,467	13,228	3,085
2024	184,660	89,028	20,525	7,008	124,674	83,985	16,598	2,750
2025	171,165	80,970	21,225	6,306	121,943	79,511	12,873	2,377
2026	179,010	73,148	21,975	5,560	119,648	75,164	5,603	2,106
2027 - 2031	733,850	258,428	46,955	18,638	595,803	178,785	36,703	6,583
2032- 2036	409,775	128,375	34,330	8,427	524,499	107,616	17,866	2,138
2037 - 2041	201,835	66,339	12,815	2,314	451,139	58,222	6,434	214
2042 - 2046	85,820	45,730	2,900	124	268,601	24,461	—	—
2047 - 2051	121,130	24,226	—	—	214,116	8,873	—	—
2052 - 2056	105,888	1,411,722 *	—	—	16,920	983	—	—
2057 - 2061	—	—	—	—	11,290	391	—	—
	<u>\$2,539,683</u>	<u>\$2,379,372</u>	<u>\$194,970</u>	<u>\$ 63,674</u>	<u>\$2,699,261</u>	<u>\$ 798,851</u>	<u>\$ 122,231</u>	<u>\$ 22,629</u>

\* 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 April 2021 the State issued \$136 million of general obligation bonds with interest rates of 0.25% - 5.00%, maturing from 2023 through 2041. The premium paid on these bonds was \$14.9 million. In accordance with certain bond statutes, net premiums of \$8.8 million were transferred to RI Infrastructure Bank to provide municipalities with low-cost financial assistance for road and bridge projects and \$5.8 million was transferred to the Rhode Island Capital Plan Fund.

The State also issued \$87.7 million of general obligation refunding bonds with interest rates of 1.00% - 5.00%, maturing from 2022 through 2034. The premium paid on these bonds was \$1.9 million. These bonds, combined with the premium, were deposited in an irrevocable trust to advance refund \$80.7 million of series 2011A, 2012A, 2013A, 2013B, and 2014B bonds with interest rates from 3.000% to 5.058%. The refunding resulted in a reduction of debt service of \$8.2 million and an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$8 million. The advanced refunding resulted in a deferred loss (difference between the reacquisition price and the net carry amount of the old debt) of approximately \$2.7 million that was recorded as a deferred outflow of resources.

*Forward Delivery Bond Purchase Agreement* – The State entered into a forward delivery bond purchase agreement with a financial institution in March 2021. The agreement provides the financial institution with a purchase option for the State's 2022 Series Refunding Bonds anticipated for issuance in October 2022. In consideration of the purchase option, the financial institution advanced the State an upfront amount (minus commitment fees and expenses) of \$5.9 million. The upfront payment is reflected as a deposit liability of the State at June 30, 2021.

The agreement provides both the financial institution and the State the option of executing the purchase option in the agreement (which stipulates the purchase of \$49 million in refunding bonds at a set price) or

a settlement option where the State would provide a determined amount to the purchaser (based on a calculation specified in the agreement). The purchaser could also elect neither the purchase nor settlement option and the agreement would be voided and the State would not be liable for returning the upfront payment. The deposit liability will be considered in conjunction with the determination of any gain or loss on the future debt refunding transaction.

At June 30, 2021, general obligation bonds authorized by the voters and unissued amounted to approximately \$576 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. Additionally, the General Assembly, pursuant to General Law Chapter 35-18, authorized \$144 million for school construction in the Central Falls School District (a component unit) and \$10.5 million for the Providence River Dredge Project.

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.

*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-four cents (\$.34) 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.

Pledged revenues were sufficient to fund fiscal 2021 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 2035 and 2027, respectively.

*Historic Tax Credit Bonds* - In fiscal years 2009, 2015 and 2019 the R.I. Commerce Corporation (RICC), on behalf of the State, issued \$150 million, \$75 million and \$76.9 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 \$54.3 million of Historic Tax Credit Bonds.

*Tobacco Settlement Asset-Back Bonds and Accreted Interest* - the Tobacco Settlement Finance Corporation (Corporation) has issued various series of Tobacco Settlement Asset-Backed Bonds, the proceeds of which 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 Corporation issued \$197,005,742 of 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 previously purchased under a 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.

The Corporation issued \$620,935,000 of Tobacco Settlement Asset-Backed Bonds (Series 2015 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 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 outstanding balance of the Corporation's 2002 Series bonds, and to repurchase and retire certain principal and accreted interest on the Corporation's 2007 Series bonds.

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.

Reserve accounts in the amount of \$26,700,250 and \$12,175,975 were established for the Series 2015 A and Series 2015 B bonds, respectively. The Corporation is required to maintain these reserve accounts to the extent of available funds. Amounts on deposit with the trustee in the respective reserve account are available to pay (i) the principal of sinking fund installments of, and interest on, the Series 2015A and 2015 B 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.

The Corporation has debt service requirements totaling \$2.4 billion at June 30, 2021. The related bonds were structured based upon assumptions in tobacco settlement revenue (TSR) collections prepared by an independent consultant at the time the bonds were issued. The repayment of the bonds is dependent upon the receipt of TSRs from the Master Settlement Agreement, which are based on domestic cigarette sales. Any amounts received in excess of the scheduled principal and interest are applied to turbo maturities (principal and interest paid on the bonds in excess of scheduled principal and interest requirements). Any payment of turbo maturities in future years impacts, potentially significantly, the overall debt service requirements to maturity schedule. The domestic cigarette consumption estimates, and projections are highly sensitive to a variety of assumptions. Since the Corporation's last sale of bonds in fiscal 2015, amounts received by the Corporation pursuant to the Master Settlement Agreement have been less than the amounts projected in the consumption estimates used to structure the debt service requirements. TSRs received by the Corporation in future years that are less than the amounts projected to be received at the time of the sale of bonds could delay the payment of scheduled debt service on the bonds until sufficient TSRs are available to the Corporation.

### **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, 2021, outstanding bond indebtedness totaled \$194.9 million.

During April 2021, the Authority issued its 2021 Series A Bonds in an aggregate amount of \$32,170,000 for the purpose of refunding the Authority's outstanding 2015 Series A Bonds and to pay the costs of issuance. The 2021 Series A Bonds mature between 2021 and 2026. The net proceeds of \$32,013,491 (after payment of \$156,509 in issuance costs) were deposited in an irrevocable trust fund under an



escrow agreement between the escrow agent and the Authority. As a result of the refunding, total debt service payments from 2021 to 2026 are scheduled to increase by \$750,487, which causes an economic loss (the difference between the present value of the debt service payments on the old and new debt) of \$494,198. The Authority expects the future economic benefits associated with the elimination of the private use restrictions to exceed \$494,198.

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, 2021, 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, 2021.

Concurrent with the issuance of the RICCA's 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 2021 Series A, 2015 Series A and 2017 Series A are no longer outstanding. In June 2021, AGM was rated by Moody's as A2. In June 2021, AGM was rated by S&P as AA.

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, 2021, 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.

### **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, 2021 revenue bonds outstanding were approximately as follows: URI - \$257.8 million, RIC - \$12.3 million, and CCRI - \$906,000.

#### *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 \$185.5 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 \$45.1 million for the year ended June 30, 2021. Principal and interest payments for the year ended June 30, 2021 were approximately \$23 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 2013. RIAC began making monthly payments of interest in fiscal 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 2012 with a final maturity in fiscal 2042. Such repayments are payable solely from the net revenues derived from the InterLink. As of June 30, 2021, RIAC had approximately \$39.6 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 \$37.4 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) (0.10250% at June 30, 2021) 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):	<u>AA/Aa2 or Higher</u>	<u>AA-/Aa3</u>	<u>A+/A1</u>	<u>A/A2</u>	<u>A-/A3</u>
Applicable Margins, 2013 Series A	1.00%	1.17%	1.37%	1.57%	1.82%

At June 30, 2021, the State's general obligation bonds were rated AA and Aa2 by S&P and Moody's, respectively. As such, at June 30, 2021, the 2013 Series A Bonds bore interest at 1.10250%.

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

Simultaneously with the issuance of the 2013 Series A Bonds, the I-195 RDC, RICC, and a Bank entered into a bond purchase agreement under the terms of which the 2013 Series A 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 Bonds, the State entered into separate rate cap transaction agreements with the Bank for each bond series (the Cap Agreement). 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%. At June 30, 2021, the fair value of the 2013 Series A Rate Cap Agreements was \$973 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 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. 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 \$368,000 and \$14.4 million, respectively.

## D. 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, 2021, 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, 2021:

Fiscal Year Ending June 30	Certificates of Participation	Other Capital Leases	Total
2022	\$ 28,366	\$ 943	\$ 29,309
2023	28,453	812	29,265
2024	24,431	314	24,745
2025	19,889	—	19,889
2026	8,777	—	8,777
2027 - 2031	29,842	—	29,842
2032 - 2036	9,313	—	9,313
Total future minimum lease payments	149,071	2,069	151,140
Amount representing interest	(23,076)	(18)	(23,094)
Present value of future minimum lease payments	<u>\$ 125,995</u>	<u>\$ 2,051</u>	<u>\$ 128,046</u>

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.

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, 2021 (expressed in thousands) are as follows:

Category	Cost	Accumulated Depreciation	Net Book Value
Buildings	\$ 215,583	\$ 70,780	\$ 144,803
Building Improvement	86,737	39,923	46,814
Computer Systems	70,186	34,490	35,696
Infrastructure	26,754	9,364	17,390
Equipment	1,327	465	862
	<u>\$ 400,587</u>	<u>\$ 155,022</u>	<u>\$ 245,565</u>

## E. 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, 2021, the following bonds outstanding (expressed in thousands) are considered defeased:

	<u>Amount</u>
Primary government:	
General Obligation Bonds	\$ 160,175
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	42,250
R.I. Infrastructure Bank	117,200
R.I. Airport Corporation	14,090
R.I. Turnpike and Bridge Authority	48,805

## F. 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, 2021 was \$3.3 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, 2021 was \$32.1 million and \$958 million for these component units. Certain issues of conduit debt are moral obligations of the State, and the current amounts outstanding are disclosed in Note 17.

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, 2021, RIIB had seven series of conduit bonds outstanding, with an aggregate principal amount payable of approximately \$55.3 million.

## G. 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. 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 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.

38 Studios filed for Chapter 7 bankruptcy in 2012 and the General Assembly has appropriated amounts needed to fund debt service of the JCGP bonds in prior years. The General Assembly appropriated \$12.7 million in fiscal 2021 to fund the last required debt service on the JCGP bonds related to 38 Studios.

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

#### H. 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, 2021, no reasonable estimates of those recoveries can be made. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

## I. 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.

## J. 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.

## K. 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.

## L. 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.
- Asset Retirement Obligations – these amounts are considered long-term liabilities since the nuclear reactor that the liability relates to has an estimated useful life in excess of one year.

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.
- Asset Retirement Obligations – General and RI Capital Plan.
- 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, grants refundable and escrow deposits.



**Note 8. 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, 2021 are as follows (expressed in thousands):

	Governmental Activities	Business- Type Activities	Total Primary Government	Component Units
Deferred outflows of resources:				
Deferred loss on refunding of debt	\$ 19,549	\$ 4,668	\$ 24,217	\$ 11,776
Deferred pension costs - ERS	546,367	5,720	552,087	35,964
Deferred pension costs - single employer plans and other	51,104	—	51,104	23,300
Deferred OPEB costs - multiple employer plans	54,401	1,309	55,710	23,960
Deferred OPEB costs - single employer plans	7,034	—	7,034	—
Asset Retirement Obligations	33,952	—	33,952	—
Derivatives	—	—	—	865
Total deferred outflows of resources	<u>\$ 712,407</u>	<u>\$ 11,697</u>	<u>\$ 724,104</u>	<u>\$ 95,865</u>
Deferred inflows of resources:				
Deferred gain on refunding of debt	\$ 26,072	\$ —	\$ 26,072	\$ 2,048
Deferred pension credit - ERS	119,605	525	120,130	21,068
Deferred pension credit - single employer plans and other	9,752	—	9,752	2,047
Deferred OPEB credit - multiple employer plans	99,525	1,048	100,573	38,092
Deferred OPEB credit - single employer plans	18,523	—	18,523	—
Total deferred inflows of resources	<u>\$ 273,477</u>	<u>\$ 1,573</u>	<u>\$ 275,050</u>	<u>\$ 63,255</u>

The components of the deferred inflows of resources related to the governmental funds as of June 30, 2021 are as follows (expressed in thousands):

	General Fund	IST Fund	Total Governmental Funds
Deferred inflows of resources:			
Taxes	\$ 22,113	\$ —	\$ 22,113
Other General Revenue	10,606	—	10,606
Federal Revenue	—	9,622	9,622
Total deferred inflows of resources	<u>\$ 32,719</u>	<u>\$ 9,622</u>	<u>\$ 42,341</u>



## Note 9. Governmental Fund Balance, Budget Reserve and Cash Stabilization Account, and Net Position Restricted for Enabling Legislation

### A. Governmental Funds Balances

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

#### Governmental Funds - Fund Balance

	Major Funds			Total
	General Fund	IST Fund	Other Funds	
Fund Balances:				
Nonspendable:				
General Fund	\$ 1,538	\$ —	\$ —	\$ 1,538
Permanent Fund Principal	—	—	174	174
Restricted for:				
Purposes specified by enabling legislation	276,172	—	—	276,172
RI Capital Plan	—	—	149,825	149,825
Debt Service	—	12,204	71,558	83,762
Capital Projects	—	—	241,451	241,451
Temporary Disability Insurance	—	—	173,571	173,571
Historic Tax Credit Redemption	—	—	67,929	67,929
Transportation-Infrastructure	—	209,336	—	209,336
Mission 360 Loan Program	—	1,864	—	1,864
Education	—	—	347	347
Other	—	—	623	623
Committed to:				
Transportation-Maintenance	—	41,835	—	41,835
Other	8,135	—	433	8,568
Assigned to:				
Subsequent Years Expenditures	283,539	579	—	284,118
Statutory Reappropriations	8,446	—	—	8,446
Unassigned:				
Budget Reserve and Cash Stabilization	227,949	—	—	227,949
Other	91,476	—	—	91,476
Totals	<u>\$ 897,255</u>	<u>\$ 265,818</u>	<u>\$ 705,911</u>	<u>\$ 1,868,984</u>

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**B. Budget Reserve and Cash Stabilization Account**

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 2021, 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 General Assembly appropriated the transfer of \$120 million from the Budget Reserve and Cash Stabilization Account as part of the fiscal 2020 supplemental appropriations act to provide resources in anticipation of revenue reductions and additional expenditures in response to the COVID-19 pandemic. The Budget Reserve and Cash Stabilization Account is included within Unassigned Fund Balance within the General Fund but is not considered available for appropriation until specifically made available by the General Assembly. Amounts appropriated from the Budget Reserve and Cash Stabilization Account are available to support general revenue expenditure appropriations. At the close of fiscal 2021, the Budget Reserve and Cash Stabilization Account was almost fully restored.

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.

**C. Net Position Restricted for Enabling Legislation**

The State's net position restricted by enabling legislation represents resources which a party external to a government such as citizens, public interest groups, or the judiciary can compel the government to use only for the purpose specified by the legislation. The government-wide Statement of Net Position reports \$709.4 million of restricted net position, of which \$596.3 million is restricted by enabling legislation.

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

**Note 10. Restatements – Net Position and Fund Balance**

Restatements of beginning net position (expressed in thousands) are in the following table:

	Governmental Activities	Business- Type Activities	Discretely Presented Component Units	General Fund	Fiduciary Funds	
					Private Purpose Trusts	Custodial Funds
Previously reported at June 30, 2020:						
Fund Balance				\$ 401,770		
Net Position	\$ (609,814)	\$ 306,186	\$ 3,094,967		\$ 5,168,052	\$ —
<b>Restatement due to:</b>						
1) Implementation of GASB Statement No. 84 - Fiduciary Activities - reclassification of certain activities within the RIHealth and Educational Building Corporation and Central Falls School District (discretely presented component units) to fiduciary activities and establishment of custodial funds	—	—	(14,128)	—	—	73,665
2) Retroactive Medicaid billing for State Eleanor Slater Hospital	9,827	—	—	9,827	—	—
3) Change in recognition of public health personnel costs at the Eleanor Slater Hospital reimbursed through federal CRF	(23,670)	—	—	(23,670)	—	—
4) Correction of interest income - Convention Center Authority	—	771	—	—	—	—
5) Correction of revenue - I-195 Redevelopment Redistrict Commission	—	—	(16)	—	—	—
6) Correction of commitment payable - RI Health and Educational Building Corporation	—	—	398	—	—	—
7) Change in reporting entity - inclusion of ABLE Trust as a Private Purpose Trust	—	—	—	—	1,297	—
8) Reclassification of Health Source RI Trust from Agency Funds to Private Purpose Trusts	—	—	—	—	—	—
Restated Beginning balances at July 1, 2020:						
Fund Balance				<u>\$ 387,927</u>		
Net Position	<u>\$ (623,657)</u>	<u>\$ 306,957</u>	<u>\$ 3,081,221</u>		<u>\$ 5,169,349</u>	<u>\$ 73,665</u>

**Note 11. 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	\$ 1,606,554	\$ 1,609,848
General Business Taxes:		
Business Corporations	201,789	202,728
Public Utilities Gross Earnings	93,475	93,475
Financial Institutions	34,856	34,856
Insurance Companies	127,285	127,285
Bank Deposits	3,819	3,819
Health Care Provider Assessment	35,121	35,121
Sub-total - General Business Taxes	<u>496,345</u>	<u>497,284</u>
Sales and Use Taxes:		
Sales and Use	1,341,418	1,339,923
Motor Vehicle	682	682
Cigarettes	159,713	159,713
Alcoholic Beverages	22,201	22,201
Sub-total - Sales and Use Taxes	<u>1,524,014</u>	<u>1,522,519</u>
Other Taxes:		
Inheritance and Gift	42,986	42,986
Racing and Athletics	404	404
Realty Transfer	17,775	17,775
Sub-total - Other Taxes	<u>61,165</u>	<u>61,165</u>
Total - General Fund	<u>3,688,078</u>	<u>3,690,816</u>
Intermodal Surface Transportation Fund		
Gasoline	143,346	143,345
RI Highway Maintenance	74,778	74,778
Other Governmental Funds	234,991	234,991
Total Taxes	<u>\$ 4,141,193</u>	<u>\$ 4,143,930</u>

**Note 12. 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 eleven programs in place to abate taxes. Of the eleven programs, seven are managed by the State and four are managed by the Rhode Island Commerce Corporation.

For certain 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 \$67.9 million is available in the Historic Tax Credit Fund at June 30, 2021.

The following is a summary of taxes abated during fiscal 2021 by tax type (expressed in thousands):

<b>Tax Abatement Program</b>	<b>Personal Income</b>	<b>Business Corporation</b>	<b>Insurance Companies</b>	<b>Financial Institutions</b>	<b>Hotel Tax</b>	<b>Sales Tax</b>	<b>Non-Profit Redemption*</b>	<b>Total</b>
Job Development Act	\$ —	\$ 1,208	\$ —	\$ 13,202	\$ —	\$ —	\$ —	14,410
Motion Picture Production Tax Credits	521	1,632	81	—	—	—	—	2,234
Historic Preservation Tax Credits	8,958	—	4,162	—	—	—	197	13,317
Tax Credit for Contributions to Qualified Scholarship Organizations	1,014	—	180	—	—	—	—	1,194
Qualified Jobs Incentive Tax Credit	62	—	—	—	—	—	—	62
Tax Increment Financing (PILOT)	—	—	—	—	68	405	—	473
Tax Increment Financing (Traditional)	—	—	—	—	33	270	—	303
Wavemaker Fellowship**	93	—	—	—	—	—	—	93
Apprenticeship Program	—	—	—	—	—	—	—	—
Rebuild Rhode Island	1,248	150	7,316	—	—	—	—	8,714
<b>Total</b>	<b>\$ 11,896</b>	<b>\$ 2,990</b>	<b>\$ 11,739</b>	<b>\$ 13,202</b>	<b>\$ 101</b>	<b>\$ 675</b>	<b>\$ 197</b>	<b>\$40,800</b>

\* Non-profit entities may request payment for the value of historic preservation 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, 2021 direct payments made to fellows totaled approximately \$1.1 million.

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*Other Commitments under Tax Abatement Agreements* - Certain tax abatement programs include commitments by the State other than the reduction of taxes.

- The 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. During the fiscal year ended June 30, 2021, direct payments made to Wavemaker fellows totaled approximately \$1.1 million.
- Individual taxpayer information is protected by state and federal laws mandating its confidentiality and cannot be disclosed without specific statutory authority. To the extent GASB Statement No. 77 – *Tax Abatements* requires disclosure of such information, the State is legally prohibited from providing disclosures of individual taxpayer information.
- 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, 2021.

<b><u>Program Name:</u></b>	<b><u>Job Development Act</u></b>	<b><u>Enterprise Zone</u></b>
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

<b><u>Program Name:</u></b>	<b><u>Qualified Jobs Incentive Tax Credit</u></b>	<b><u>Rebuild Rhode Island Tax Credit</u></b>
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, Personal Income, or Sales and Use.
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) 75% of the reasonable State income tax withholding generated; or (2) a cap of \$2,500 to \$7,500 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 outside financial returns.



<b><u>Program Name:</u></b>	<b><u>Tax Increment Financing</u></b>	<b><u>Wavemaker Fellowship</u></b>
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.	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.
Taxes being abated:	Business Corporation, Public Service Corporation, Financial Institution, Insurance Company, Personal Income, Hotel, or Sales and Use.	Personal Income
Authority under which abatements are entered into:	Rhode Island Tax Increment Financing Act of 2015 (RIGL 42-64.21)	Stay Invested in RI Wavemaker Fellowship (RIGL 42-64.26)
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.	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.
How taxes are reduced:	Eligible taxes are reimbursed to the developer.	As a credit to the amount of taxes owed. Wavemaker fellows may also request payment for the value of the credit awarded.
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.	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.
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.	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.

<b><u>Program Name:</u></b>	<b><u>Motion Picture Production Tax Credits</u></b>	<b><u>Historic Preservation Tax Credits</u></b>
Program purpose:	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.	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.
Taxes being abated:	Business Corporation, Public Service Corporation, Financial Institution, Insurance Company, or Personal Income	Business Corporation, Personal Income, Insurance Tax, Insurance - HMO.
Authority under which abatements are entered into:	RIGL 44-31.2	RIGL 44-33.6
Criteria to be eligible to receive abatements and commitment of the taxpayer:	Primary production locations are to be within the State of Rhode Island, and the total production budget must be at least \$100,000. 30% of State certified production costs incurred that are directly attributable to activity within the State.	A certified historic structure is to be substantially rehabilitated.
How taxes are reduced:	As a credit to the amount of taxes owed.	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.
How abatement is determined:	The amount of the credit shall be 30% of State certified production costs incurred that are directly attributable to activity within the State. 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.	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.
Recapture provisions:	N/A	N/A

<b><u>Program Name:</u></b>	<b><u>Employer's Apprenticeship Tax Credits</u></b>	<b><u>Tax Credit for Contributions to Qualified Scholarship Organizations</u></b>
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
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 13. Pledged Revenue

The State's debt supported by pledged revenue is as follows (expressed in thousands):

<b>Revenue Bonds-Tobacco Settlement Financing Corporation</b>		
Revenue:		
Tobacco settlement revenue-cash basis (a)	\$ 46,987	
Investment income	9	
Total revenue	<u>46,996</u>	
General and administrative expenses	72	
Net revenue available for debt service	<u>\$ 46,924</u>	
Required debt service payments	\$ 35,507	
Covered ratio before turbo principal payments (b)		132.15 %
Turbo redemptions - principal (c)	11,860	
Total annual debt service	<u>\$ 47,367</u>	
Covered ratio after turbo principal payments (d)		99.07 %
Term of commitment - through June 2052		
<b>Revenue Bonds-GARVEE (Federal Highway)</b>		
Revenue - FHWA participation	\$ 65,517	
Less: operating expenses	—	
Net available revenue	<u>\$ 65,517</u>	
Debt service		
Principal	\$ 37,305	
Interest	28,214	
Total debt service	<u>\$ 65,519</u>	
Coverage (b)		100.00 %
Term of commitment - through June 2035		
<b>Revenue Bonds-Motor Fuel (Gas Tax)</b>		
Revenue - 2 cents per gallon of the gasoline tax	\$ 8,151	
Less: operating expenses	—	
Net available revenue	<u>\$ 8,151</u>	
Debt service		
Principal	\$ 3,980	
Interest	1,381	
Total debt service	<u>\$ 5,361</u>	
Coverage (b)		152.04 %
Term of commitment - through June 2027		

- (a) Included for fiscal year 2021 are certain one-time revenue items totaling \$12,625,252. A total of \$2,036,738 related to disputed payment amount for 2018, as a settled, not transition, year at 75% of the 2018 NPM Adjustment disputed payment amount and \$10,588,514 related to the NPM Adjustment 'disputed payment amount for 2020 as a transition year at 100% of Rhode Island's potential maximum '2020 NPM Adjustment. The 2020 year was settled on a 75% / 25% split between the States and PMs with 100% of the potential maximum NPM Adjustment amount paid to Rhode Island in 2021. A 25% credit of approximately \$2,647,129 for the 2020 NPM Adjustment is due to the PMs in the 2023 payment year.
- (b) Coverage ratio equals net revenue available for debt service divided by required debt service payments.
- (c) "Turbo" redemption provisions require the Corporation to apply collections that are in excess of current funding requirements to the early redemption of the bonds.
- (d) Coverage ratio equals net revenue available for debt service divided by total annual debt service.

**Note 14. Transfers**

Transfers for the fiscal year ended June 30, 2021 are presented below (expressed in thousands):

	<u>Transfers</u>	<u>Description</u>
Governmental Funds		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	\$ 51,761	Debt service and operating assistance
Nonmajor Funds		
RI Temporary Disability Insurance	971	Operating assistance
Historic Tax Credit Financing	13,120	Tax credits claimed
Bond Capital	73	Interest earnings transfer
Clean Water	4	Transfer
RI Capital Plan	12	Capital expenditures
Proprietary Funds		
Lottery	<u>301,803</u>	Net income transfer
Total General	<u>367,744</u>	
Intermodal Surface Transportation		
RI Bond Capital	<u>29</u>	Infrastructure funding
Nonmajor Funds		
RI Capital Plan		
General	120,000	Transfer of FY21 Appropriations
Bond Capital	5,759	Premium on new bonds
Historic Tax Credit Financing	20,000	Transfer of FY21 appropriations
RI Public Rail Corp		
Intermodal Surface Transportation	<u>3,264</u>	Operating assistance
Total Nonmajor Funds	<u>145,759</u>	
Total Governmental Funds	513,532	
Proprietary Funds		
Convention Center		
General	24,963	Debt service and operating assistance
RI Capital Plan	<u>1,000</u>	Capital improvement
Total Proprietary Funds	<u>25,963</u>	
Total Transfers Primary Government	<u>\$ 539,495</u>	

**Note 15. Operating Lease Commitments**

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately \$18.6 million for the fiscal year ended June 30, 2021. 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, 2021:

Fiscal Year Ending June 30	
2022	\$ 15,887
2023	13,364
2024	10,457
2025	9,798
2026	7,913
2027 - 2031	16,139
2032 - 2036	2,278
Total	<u>\$ 75,836</u>

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

## Note 16. Commitments

### Primary Government

The primary government is committed at June 30, 2021 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, 2021, the primary government had transportation infrastructure design, construction and other contract commitments of approximately \$852 million, and contract commitments for the design, construction and renovation of buildings of approximately \$19 million. At June 30, 2021 the primary government had software development and implementation contract commitments of approximately \$133 million. These amounts include only purchase orders and related amendments generally processed through June 30, 2021. The State is also committed under multiple contracts for ongoing services which are not included in these commitment amounts.

### *RI Public Rail Corporation Letter of Credit*

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 and bridges over AMTRAK's Northeast Corridor. 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 and Pawtucket/Central Falls Commuter rail station with policy limits of \$295 million, per federal law, subject to a self-insured retention of \$7.5 million.

### *United States Department of Justice Consent Decree*

The State of Rhode Island entered in consent decree in April 2014 with the United States Department of Justice (USDOJ) relating to the statewide day activity service system for individuals with intellectual and developmental disabilities to remedy any and all violations of the integration mandate of Title II of the Americans with Disabilities Act (ADA) and Olmstead Decision (Olmstead v. L.C.), that were identified as a result of the United States' calendar year 2013 investigation of the State's day activity service system.

The consent decree is intended to ensure that the State will timely meet the requirements of the integration mandate of the ADA and the Olmstead decision as it pertains to the statewide day activity service system, which require that the State's day activity services, including employment and day services, for individuals with intellectual and developmental disabilities be provided in the most integrated setting appropriate to meet their needs. The consent decree anticipated that Rhode Island will have complied with all provisions of the consent decree by the end of State Fiscal Year 2024, unless terminated, cancelled, or extended.

As the State continues to comply with the terms of the consent decree, recent court orders by the judge overseeing the consent decree will require a significant investment in upcoming years in the operations and underlying infrastructure that support the service system for individuals with intellectual and developmental disabilities. Specifically, the court order requires the State develop and adopt a three-year budget strategy to, among other things, fund increases in wages to direct support professionals, increase funding for transportation and technology, and address the costs of transitioning the supports to an individualized community-based model. These supports are largely met through service providers contracted by the State. The amount of additional investment, while not currently determined, is expected to be significant and expended over fiscal years 2022 through 2024, subject to budgetary appropriations.

In October 2021, the court approved (and ordered) terms agreed to by the State and USDOJ. The court ordered terms would increase the State's Medicaid reimbursable rate to allow for a significant increase in the starting wage for direct support professionals through fiscal 2024. This increase is estimated to cost \$34.7 million, with the State's share approximating \$15.5 million. Additionally, the State will establish a \$12 million programmatic transition fund, which shall not supplant or replace existing funding for intellectual and development disability supports and services and must be used solely for integrated day activities and supported employment services as defined in the consent decree. It is likely that the transition fund will be funded with State general revenues. The terms would also commit the State to a \$2 million fund for technology acquisition for individuals receiving intellectual and development disability supports and services.

#### ***United States Environmental Protection Agency Consent Decree***

RIDOT entered into a Consent Decree with the EPA in 2015 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 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. The State has committed to significant annual investments to implement the remedial actions. 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.

#### ***Department of Children, Youth and Families Foster Care Program Settlement Agreement***

Children's Rights of New York (Children's Rights) brought suit against the State in 2007 alleging constitutional and statutory violations in its foster care programs. Children's Rights sought substantial changes to these programs, prolonged supervision by a private, outside monitor and attorney's fees. A judgment was entered in favor of the State in United States District Court for the District of Rhode Island on April 30, 2014. Children's Rights appealed to the United States Court of Appeals for the First Circuit, which reversed the judgment and remanded the case to the District Court for additional discovery and further litigation.

A settlement agreement was approved by the District Court after a fairness hearing in May 2018. The State began to implement the requirements of the Settlement Agreement. To date, the State has successfully achieved three of the benchmarks in the Settlement Agreement and has successfully exited out of the three sections to the agreement. In accord with the terms of the Settlement Agreement, the



State is going through the procurement process to engage a contractor to conduct a work load study. The purpose of the work load study is to assess what, if any, additional staffing resources are necessary for the State to achieve compliance on the sections of the Settlement Agreement related to child welfare practice. A determination on additional staffing resources needs will be made after the agency receive the results of the workload study.

While the parties have entered into the settlement agreement, pursuant to which the state has paid \$3.4 million in attorney's fees to plaintiffs' counsel and is providing services, the state may face continuing exposure for damages and additional attorney's fees arising out of a challenge to the State's completion of agreed benchmarks and entitlement to exit the agreement on several parameters.

### ***Performance-based Agreements***

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 State has commitments relating to this debt through fiscal 2027. In addition, RICC has committed to funding various economic development initiatives that are further described in Note 12, Tax Abatements.

### ***Asset Retirement Obligations***

The Rhode Island Nuclear Science Center (RINSC) located on the University of Rhode Island's Bay Campus houses a nuclear reactor. The process by which nuclear reactors are retired from service and terminate their operating licenses granted by the U.S. Nuclear Regulatory Commission (USNRC) is referred to as decommissioning. The USNRC regulates the decommissioning of nuclear power plants and has established requirements that must be adhered to in the process.

In accordance with GASB Statement No. 83 *Certain Asset Retirement Obligations* a liability for the estimated cost of decommissioning the nuclear reactor and an offsetting deferred outflow of resources, each totaling \$32.6 million was recorded as of July 1, 2018. In fiscal 2021 an additional \$4.0 million was recorded. The liability was measured using the estimated current value of outlays expected to be incurred for required decommissioning and post-decommissioning costs. The liability estimate calculation assumed a post-decommissioning monitoring period of 20 years and a contingency factor calculated using weighted average probability factors of 25%, 32% and 60%.

The estimated remaining useful life of the nuclear reactor is 37 years as of June 30, 2021. During fiscal 2021 amortization expense of \$918 thousand related to the deferred outflow of assets was charged to general government functions on the Statement of Activities. The total deferred outflows remaining to be amortized at June 30, 2021 was \$34 million.

In accordance with GASB Statement No. 83 *Certain Asset Retirement Obligations* all relevant factors are reevaluated annually to determine whether the effect of one or more of those factors is expected to significantly increase or decrease the expected outlays associated with the liability. Based on the results of each reevaluation, the liability is remeasured if required.

### ***State Takeover of Providence Public School District***

The State, acting through the Council on Elementary and Secondary Education ("Council") and the Rhode Island Department of Education ("RIDE"), oversees the performance of schools and school districts that receive state education aid. This oversight role includes adopting statewide standards for student performance and annually assessing the performance of individual schools and school districts against such statewide standards.

Pursuant to the Crowley Act, R.I. Gen. Laws § 16-7.1-5, the State is required to intervene when a school or school district continually falls short of performance standards. State intervention initially consists of support and technical assistance. However, when improvement remains lacking, the Act provides that a school or school district may be reconstituted. Reconstitution "may range from restructuring the school [or



school district's] governance, budget, program, personnel, and/or may include decisions regarding the continued operation of the school [or school district].”

RIDE identified the Providence Public School District (the “PPSD”) as consistently among the lowest performing districts in the State, based on objective criteria such as academic proficiency, absenteeism and graduation rates. The State, in collaboration with the PPCSD, attempted to improve the PPCSD through operational, policy and financial support, all of which were unsuccessful. Thus, pursuant to the Crowley Act, the State assumed governance and management responsibility for the PPCSD for an initial period of five years, commencing on November 1, 2019, pursuant to the Council’s July 23, 2019 delegation of authority to the Commissioner, the Commissioner’s October 15, 2019 Order of Control and Reconstitution, and the Collaboration Agreement between RIDE and the City. The State has appointed an acting “turnaround superintendent” to manage PPCSD operations and develop and implement a Turnaround Action Plan.

In connection with its takeover of the PPCSD, it is conceivable that, under certain circumstances, the State could be held responsible for budget deficits and other costs relative to the PPCSD, subject to the State appropriations and budget process. Whether, and to what extent, the State could be held responsible for such budget deficits and other costs is unknown at this time.

### ***Rhode Island Lottery – Master Contract Agreements***

#### *Gaming Systems Provider – International Game Technology (IGT)*

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 (\$1.25 million at June 30, 2021).

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.

#### *Video Lottery Terminal Provider - International Game Technology (IGT)*

IGT is also a provider of video lottery terminals and receives compensation equal to 7% of net terminal income. The Master Contract (as amended) also includes provisions related to premium IGT video lottery terminals and responsibility for related license fees (IGT) as well as concurrence on agreement on the promotional points program with the casinos and the Lottery.

#### *Sportsbook - International Game Technology (IGT)*

The Lottery also executed a Sports Betting Agreement with IGT to provide, along with its subcontractor, American Wagering, Inc., D/B/A William Hill US (William Hill), a proprietary sports betting solution for all sports betting at the Twin River Casino Hotel and the Tiverton Casino Hotel facilities. The initial term of the software license is five years from launch date (November 26, 2018), and upon mutual agreement of the parties, there are two successive five-year renewal options. In exchange, IGT has allocated its revenue share in accordance with RI General Laws 42-61.2-7. In the event of a loss of sports wagering revenue in a quarterly period, IGT will cover the State’s share of said loss interest free until a subsequent invoicing period is sufficient to cover said prior period loss.

During July 2019, the Lottery executed the first amendment to the Sports Betting Agreement authorizing IGT to supply the equipment, software, and services for online sports wagering using mobile devices.

This is in accordance with authorized sports wagering legislation enacted in June 2019. Effective April 30, 2020 the Division is responsible for two-thirds (2/3) payment of all transaction processing fees.

The Sports Betting Agreement was further amended in January 2020 to authorize IGT additional responsibilities for the provision of certain fraud and security services, as well as, cash fund management services in connection with the online sports wagering agreement executed in July 2019. In consideration of these additional services, the Division invoices Twin River Casino Hotel and remits payment to IGT a fixed monthly fee of \$20,000 since the launch of online sports wagering, with the initial month pro-rated. As of August 12, 2020, the fraud and security services were assumed by Twin River. The monthly fees collected by the Lottery and remitted to IGT have been reduced to \$12,000 per month in the aggregate to reflect Twin River's assumption of these responsibilities.

#### *Licensed Gaming Facilities (Twin River Casinos)*

Twin River Worldwide Holdings, Inc. purchased the Bally's brand previously owned by Caesars Entertainment, Inc. and as a result, the Lottery's licensed gaming facilities are owned and operated by Bally's Corporation and operate as Twin River – Lincoln (Twin River Casino Hotel) and Twin River – Tiverton (Tiverton Casino Hotel).

Both licensed facilities operate under a common Master Contract with options 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 the owners' compliance with full-time employment mandates. The contract entitles the owners to compensation ranging from 26% to 28.85% of video lottery net terminal income at the facility.

The Master Contract reflects the statutory authorization of a promotional points program at the licensed gaming facilities. For fiscal year 2021, each facility's allowable promotional points are 20% of prior year net terminal income plus \$750,000. In fiscal 2021, Twin River – Lincoln and Twin River – Tiverton were authorized and issued approximately \$43.8 million and \$15.0 million, respectively, in promotional points to facility patrons.

The Lottery is required to reimburse the Twin River casinos for allowable marketing expenses incurred at the same percentage as the Lottery's share of net terminal income for the fiscal year 2021 (60.61% for Twin River -Lincoln and 58.80% for Twin River - Tiverton). For fiscal 2021, the Lottery accrued \$315,336 and \$356,622 in reimbursable marketing expenses for Twin River – Lincoln and Twin River – Tiverton, respectively.

Table games are operated at the Twin River Casino Hotel and Tiverton Casino Hotel. Commissions for both casino facilities and the respective host community were 83.5% and 1%. In June 2021, legislation enacted required a guaranteed minimum \$3 million payment to be made to the Towns of Lincoln and Tiverton, RI from net table games revenue and video lottery net terminal income, with any shortfall coming from the State's share of table games net revenue and video lottery net terminal income. In fiscal year 2021, there was a shortfall to the Town of Tiverton, RI, therefore the State was required to make a payment of \$1,613,473 to bring their minimum required payment up to \$3 million.

The Lottery also entered into a Sports Wagering Hosting Agreement with Twin River to host in-person and on-line sports wagering. The agreement entitles the owners to compensation of 17% of sports wagering revenue generated at the facilities. The agreement can be extended for two five-year periods so long as there is a master video lottery terminal contract between the relevant parties. The first amendment to the sports wagering hosting agreement allowed Twin River to host, manage and enable players to participate in online sports wagering including validation and registration of players.

During the term of the first amendment, Twin River remits to the Division \$20,000 per month for fraud, security, and cash fund management services (performed by IGT). Twin River has the option, upon approval by the Division, to assume any or all of these services. As of August 12, 2020, the fraud and security services were assumed by Twin River. The monthly fees collected by the Lottery and remitted to

IGT have been reduced to \$12,000 per month in the aggregate to reflect Twin River's assumption of these responsibilities.

### 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, III and IV were closed by RIRRC in prior years. In 2005, the Corporation began landfilling in Phase V, which is near capacity and has temporarily stopped accepting waste. In December 2015, RIRRC began accepting waste in Phase VI.

A liability for closure and post-closure care of \$110.0 million as of June 30, 2021 has been recorded in the statement of net position, as summarized by Phases below:

	Year ended June 30, 2021
Phase I	\$ 700,263
Phase II and III	18,365,775
Phase IV	19,289,601
Phase V	41,626,306
Phase VI	29,381,589
Other	587,062
	<u>\$ 109,950,596</u>

As of June 30, 2021, 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	\$ 3,637,835	91.96 %	13 months
Phase VI	\$ 78,574,969	27.22 %	19 years 5 months

As of June 30, 2021 RIRRC revised its estimate for future pollution remediation and landfill closure and post-closure care costs. The revised estimate resulted in a \$8.4 million increase of the corresponding liability from \$115.7 million at June 30, 2020 to \$124.1 million at June 30, 2021.

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 the restricted component of net position at June 30, 2021 is \$78.0 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, 2021 is as follows:

Balance, June 30, 2020	Additions	Reductions	Balance, June 30, 2021	Current Portion
\$ 13,193,377	\$ 992,881	\$ —	\$ 14,186,258	\$ 935,746

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 \$49.5 million as of June 30, 2021.

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 \$14.2 million as of June 30, 2021.

*R.I. Public Transit Authority*

The R.I. Public Transit Authority is committed under various contracts in the amount of \$19.7 million at June 30, 2021.

*Quonset Development Corporation*

Quonset Development Corporation (QDC) has entered into a \$33.6 million contract to rehabilitate a pier at the Port of Davisville funded by GO debt, RICAP appropriations from the State and QDC resources. As of June 30, 2021, the remaining commitment totaled \$13.5 million.

*R.I. Airport Corporation*

The R.I. Airport Corporation has active construction projects expected to be funded from available resources and future operations that relate to certain airport improvements. As of June 30, 2021, RIAC's commitments with contractors were approximately \$21.8 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.

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## Note 17. Contingencies

### COVID-19 Global Pandemic

On March 11, 2020 the World Health Organization declared a pandemic following the outbreak of COVID-19. On March 9, 2020 the Governor of the State of Rhode Island declared a state of emergency due to the dangers to health and life posed by COVID-19. The COVID-19 pandemic continues to have an adverse impact to state operations. Significant costs have been incurred to maintain public health and respond to the economic fallout. In addition, the pandemic has had a negative impact on certain state revenues, especially revenues related to the Rhode Island Lottery because of business closings or limitations to the hours of operations. Additionally, impacts to the hospitality industry continue to have a negative impact to the overall State economy during this ongoing public health emergency.

#### *Primary Government*

The American Rescue Plan (ARPA) was passed by Congress on March 10, 2021 and signed into law on March 11, 2021. ARPA continues many of the programs started by the CARES Act (2020) and Consolidated Appropriations Act (2021) by adding new phases, new allocations, and new guidance to address issues related to the continuation of the COVID-19 pandemic through direct federal grants to state agencies. The State received \$1.13 billion of state fiscal recovery funds in addition to other direct agency federal assistance. The \$1.13 billion is subject to appropriation which is expected to happen during the 2022 legislative session.

The State of Rhode Island received \$1.25 billion from the Coronavirus Relief Fund (CRF) during the year ended June 30, 2020. The State expended approximately \$255 million of those funds during fiscal 2020. The remaining funds totaling \$995 million were fully obligated or expended during calendar 2021 as required by the Act and subsequent guidance provided by the U.S. Treasury.

The State has utilized a significant portion of its CRF to administer assistance programs for a variety of individuals and businesses subject to eligibility criteria. The assistance has been in the form of grants or forgivable loans subject to meeting established requirements. Any funding subsequently determined to be ineligible based on program requirements was recovered and reprogrammed for eligible COVID-19 expenditures.

In addition, the federal government expanded the Stafford Act to provide significant funding for pandemic related expenses through Federal Emergency Management Agency (FEMA) disaster related assistance. Pandemic related expenses incurred by the State during fiscal 2021 likely to be reimbursed by FEMA during fiscal 2022 exceeded \$200 million. These expenditures included costs to maintain alternative hospital sites, the procurement of personal protective equipment and vaccine related costs. Significant federal assistance has also been received to support benefits to unemployed individuals including supplemental benefits and benefits to self-employed individuals.

We expect pandemic related costs to continue throughout fiscal 2022 and potentially longer. Both the extent of expenditures required to continue to address the costs of the pandemic and additional assistance from the federal government to assist with these costs continues to evolve. In addition, it is expected that significant costs will be incurred by the State to administer testing sites and vaccine distribution programs.

#### *Component Units*

- There has been significant disruption to the hospitality industry during fiscal years 2021 and 2020, including the closing of the Rhode Island Convention Center Authority (RICCA) operations during March 2020. RICCA operations include the management of the R.I. Convention Center, the Dunkin' Donuts Center and the Veterans Memorial Auditorium Arts and Cultural Center. While the disruption is currently expected to be temporary, there is considerable uncertainty about the

duration. The State has utilized the RICCA for a wide array of COVID-19 response activities, including alternative hospital site operations, public testing site and information broadcasts, which assisted RICCA to manage revenue losses associated with the disruption of normal operations.

- The pandemic and resulting restrictions have caused significant disruption in aviation activity and passenger traffic at the Rhode Island Airport Corporation.
- Precautionary measures to slow the spread of COVID-19 were ordered that have affected the Rhode Island Public Transit Authority's operations resulting in decreased ridership and fares, decreased State gas tax revenues and increased operating costs for cleaning and additional buses.
- The University of Rhode Island, Rhode Island College and Community College of Rhode Island had a decrease in the number of students living on campus due to the pandemic and the offering of online classes. In addition, a class action lawsuit was filed against the University of Rhode Island in June 2020 claiming the plaintiffs suffered academic harm after the spring semester 2020 transitioned to distance learning. This case is still in the discovery phase.

Some component unit entities have also received direct federal assistance from the CARES Act to manage the impacts to those industries relating to the pandemic. While the disruption of normal operations to the above component units is expected to be temporary, there is considerable uncertainty about the duration and extent to which these entities will be impacted by the global pandemic and the need for additional State or federal assistance as the public health emergency persists.

### **Primary Government - Litigation Contingencies**

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 contingencies are discussed below.

#### **American Trucking Associations, Inc. et al. v. Alviti**

The American Trucking Associations and four trucking companies have sued the State in federal district court alleging that the statute authorizing only tractor-trailer tolling violates the Dormant Commerce Clause of the United States Constitution. The matter is currently pending and a trial start is possible during fiscal 2022. The State receives about \$45-50 million per year in revenue from the tolling and this federal court litigation seeks to enjoin or stop the receipt of revenue but does not seek damages or restitution for tolls previously paid. It is possible that if the plaintiffs are successful, other litigants could file suit seeking the payment of damages or restitution for prior tolls charged.

#### **K.L. Class v. R.I. Council on Elementary and Secondary Education, et. al.**

A student, through their parents and on behalf of a class of similarly situated individuals, filed suit in federal court arguing that Local Education Agencies in the State must provide free appropriate public education to students with a disability who have not earned a regular high school diploma until the age of 22. Such services have historically been provided until the age of 21. On appeal of a district court decision in favor of the State, the First Circuit Court of Appeals reversed the district court, held in favor of Plaintiffs and remanded the case to the trial court to determine remedies.



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**Taxpayer v. Tax Administrator**

This case is pending in Sixth District Court as a tax appeal. A taxpayer seeks a refund for five prior years of contested tax payments (assessed tangible personal property tax) in the collective amount of approximately \$28 million including interest and challenges the method of depreciation, which would result in recalculation of the State's assessments regarding its equipment and assets. Management is contesting the case vigorously and believes they will be successful.

Over 99% of the collected tax payments are forwarded to municipalities. Therefore, an adverse verdict would impact each city and town regarding future tax payments which would be reduced to cover any amount awarded to the Plaintiff.

**A.C. et al. v. Gina Raimondo, et al.**

The State has been sued by the Rhode Island Center for Justice alleging that the State has "downgraded the teaching of social studies and civics" and thereby violated students' rights under the Equal Protection, Privileges and Immunities and Due Process Clauses of the Fourteenth Amendment, the Sixth and Seventh Amendments, as well as the Guarantee Clause of Art. 4, § 4 of the United States Constitution. The First District US Court of Appeals upheld the lower court ruling in favor of the State. However, the plaintiffs are likely to appeal to the U.S. Supreme Court.

**Chariho Regional School District, et al. v. RIDE, et al.**

This matter includes the Council on Elementary and Secondary Education and the R.I. Department of Administration as defendants. Chariho alleges RIDE breached an agreement concerning the transfer of ownership of the Chariho Career and Technical Center by allowing other communities in the county to operate career and technical programs. Defendants' joint motion to dismiss was granted March 20, 2017. On May 26, 2017, plaintiffs filed an appeal to the R.I. Supreme Court. The Supreme Court remanded the case back to Superior Court for trial on May 30, 2019. A hearing on a motion to dismiss by one of the defendants was held in November, 2019. The Court denied that motion. The case is currently in the discovery phase.

**Liberty v. Rhode Island Department of Corrections (RIDOC)**

This case is a putative class action brought by Disability Rights of Rhode Island and the ACLU National Prison Project in the name of six named individuals who were/are inmates at the RIDOC. The Complaint alleges that the RIDOC violates the ADA and the constitutional rights of inmates who have severe and persistent mental illness when the inmate is placed in administrative or disciplinary confinement. The relief sought includes injunctive relief regarding DOC's policies, practices and programs as well as seeking to have an expert appointed to assess DOC's confinement and make recommendations. The case is currently in discovery with mediation on-going. The State will contest any claim for class certification as well as defending the lawsuit on the merits.

**Tobacco Master Settlement Agreement - Tobacco Settlement Financing Corporation**

In 1998, Rhode Island, along with 45 other states, the District of Columbia and 5 territories, entered into the Master Settlement Agreement (MSA) with major tobacco manufacturers (the Participating Tobacco Manufacturers, or "PMs") to provide restitution for damages arising from the use of tobacco products. The terms of the MSA include annual payments to all States and territories in perpetuity. The State assigned all revenues from the MSA to the Tobacco Settlement Financing Corporation (TSFC) which in turn used those committed revenues to secure its bonds. The bonds are payable both as to principal and interest solely out of the assets of TSFC and do not constitute an indebtedness of or a general, legal or "moral" obligation of the State or any political subdivision of the State.

The annual payments are subject to numerous adjustments including the non-participating manufacturer (NPM) adjustment which reduces the amount of the annual payment and is applicable to each State found by an arbitration panel not to have diligently enforced the qualifying statute. States found not

diligent share the cost of the annual NPM adjustment which is applied against the next annual MSA payment. It is unknown how much of Rhode Island's MSA revenues would be at risk in a given year due to this adjustment, however, no State can lose more than its entire annual payment.

As of September 2020 NPM adjustments have been settled through 2022. Future NPM adjustment claims remain possible for calendar year 2023 and all future years. This could result in the TSFC receiving less revenue than assumed in out-year projections, potentially impacting its ability to service its debt obligations. Should the PMs be determined with finality to be entitled to a full NPM adjustment in a future year, this could have a material adverse effect on the amounts of tobacco settlement revenues available to the TSFC to make turbo redemptions and other debt service payments on its debt obligations.

Also, any failure on the part of the PMs to perform their obligations under the MSA and/or related agreements could also have a material adverse effect on receipt of future tobacco settlement revenues. A reduction in the amount of tobacco settlement revenues received could affect the TSFC's ability to make turbo redemptions and other debt service payments on its debt obligations.

Future payments may be impacted by a number of factors including, but not limited to, future or potential litigation against the tobacco industry, changes in the financial condition of the tobacco companies and sales of tobacco products.

For additional information about these matters, please refer to the separately issued Tobacco Settlement Financing Corporation financial statements for the year ended June 30, 2021.

## 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. 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 issue in the case relating to whether the State "operates" the Twin River - Lincoln and Twin River - Tiverton facilities remains pending in the Superior Court. If the tribe were to prevail, there could be a significant impact on the State's gaming revenue.

A plaintiff has filed suit against the Division of Lottery and Department of Administration challenging the constitutionality of sports betting in Rhode Island. The complaint asserts that the conduct of State operated sports betting in Tiverton and Lincoln violates the express constitutional requirement of voter approval and must be declared unconstitutional and enjoined until and unless the voters of Rhode Island approve sports gambling at duly authorized statewide and local elections. The complaint was dismissed once by the Rhode Island Superior Court due to a lack of standing by the Plaintiff, but subsequently the Court permitted the Plaintiff to refile an amended complaint. The parties then filed summary judgement motions. On June 1, 2020, the Rhode Island Superior Court issued a decision where it found that the legislation enabling sports betting did not impermissibly expand the location of gambling and that the acts are constitutional. The case is currently in full briefing before the Rhode Island Supreme Court. State



revenues collected from Twin River Casino and Tiverton Casino would be affected if a court were to enjoin or otherwise restrict sports wagering.

### **Federal Assistance**

The State receives significant amounts of federal financial assistance under grant agreements or joint state/federally financed programs 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 is submitted to the Federal Single Audit Clearinghouse annually by the State. 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. The fiscal 2021 Single Audit is in progress. It is anticipated that there will be additional questioned costs identified in that audit.

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.

*Eleanor Slater Hospital Medicaid Claiming* – The State-operated Eleanor Slater Hospital (ESH) suspended billings to Medicaid early in fiscal 2020 for Medicaid-eligible patients due to concerns relating (1) the allowability of certain services billed to Medicaid, (2) compliance with federal regulations regarding the classification and ratio of ESH medical and psychiatric patients (Institute for Mental Disease (IMD) compliance regulations) and (3) federal approval of the ESH's Medicaid reimbursement rate development process. The Executive Office of Health and Human Services (EOHHS) (State Medicaid Agency) sought approval of a State Plan Amendment (SPA) from the Centers for Medicare and Medicaid Services (CMS). CMS approved the SPA, which formalized approval of the ESH's cost reimbursement methodology for establishing a per diem billing rate. The approved SPA allowed ESH to recommence billing for Medicaid eligible individuals as of the April 1, 2020 effective date. EOHHS also obtained an independent assessment of all ESH patients as to their primary classification as medical or psychiatric. That patient classification verification along with previously approved IMD measurement intervals yielded data that supported commencement of Medicaid billing. The State has recognized retroactive billing for Medicaid eligible individuals in the financial statements for fiscal 2021 including restatement of prior year balances to reflect the retroactive Medicaid billing for periods in fiscal 2020.

ESH's continued compliance with the federal IMD regulations is not assured as it is subject to continued measurement and contingent upon the mix of patients (medical and psychiatric) at the prescribed measurement intervals. ESH was not in compliance for the months of May and June 2021 and for periods subsequent to June 30, 2021.

ESH has been subject to inquiries by the Centers for Medicaid and Medicare Services and the State Attorney General's Medicaid Fraud Control Unit. The possibility that prior claiming activity could be deemed noncompliant with federal regulations remains. Efforts continue to potentially restructure the ESH with the goal of increasing the likelihood of IMD compliance and the ability to seek Medicaid reimbursement for eligible patients.

*Medicaid Managed Care Contracts* – The State contracts with three Managed Care Organizations (MCOs) to provide capitated healthcare coverage for individuals eligible for Medical Assistance. Premiums paid for this health coverage approximate \$2 billion annually. Contracts with the MCOs include a variety of settlement provisions that often don't finalize until 16 months after year-end once all claims for the coverage period have processed. Expected final settlements are reflected in the State's financial statements, however, a variety of factors could result in additional amounts being owed to or from the Medicaid Program upon settlement completion.

*Unemployment Insurance Benefit Fraud* – Due to the impact of the global pandemic, a significant increase in the number of applicants and the amount of benefits paid to unemployed individuals occurred during fiscal 2020 and 2021. Rhode Island, as well as a number of other states, has experienced,

concurrently, a significant increase in fraudulent claims for unemployment benefits. The State has implemented multiple objectives to attempt to prevent and detect fraudulent claims; however, the State Department of Labor and Training has estimated that a significant amount of fraudulent claims were paid during fiscal 2020 and 2021. Recoveries or collections of these fraudulent benefits, if any, will be refunded to the federal government. The State Department of Labor and Training continues to quantify the amount of benefits considered fraudulent, however, the actual extent to which benefits have been obtained fraudulently may be significantly greater.

### **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, two remain pending as described below.

In September 2014, a case challenging pension reforms was commenced by the Rhode Island State Troopers Association in Superior Court. The State and ERSRI filed motions to dismiss which were heard on December 13, 2019. A decision on the motions was made on January 10, 2022 which allowed the case, in part to go forward in the litigation process. The State intends to vigorously defend this lawsuit.

In March 2020, a case challenging the Rhode Island Retirement Security Act and/or a settlement agreement related to legal challenges to pension reforms approved by the Court in July 2015 was commenced by numerous plaintiffs who were part of the class action in the Rhode Island Federal District Court against the State and ERSRI as co-defendants. The co-defendants have filed a motion to dismiss, which remains pending.

### **Component Units - Other**

#### *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, 2021, 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, 2021 are \$7.5 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 and approved with a formal vote by the board of the Authority. This settlement resulted in a payment of \$1.5 million 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. The insured commitment, which is included in total liabilities on the accompanying Statement of Net Position, amounts to \$2.3 million at June 30, 2021. No request has been made to the General Assembly at June 30, 2021 for appropriations to satisfy any liability under the insurance guarantee.

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

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, 2021 is \$97.8 million.

*University of Rhode Island*

On September 23, 2019, a family filed suit against the University of Rhode Island and the Council for Postsecondary Education, in the death of a family member, who drowned at the Tootell Aquatic Center at the University. Discovery is ongoing. The impact of this matter, if any, cannot presently be determined.

*R.I. Airport Corporation (RIAC)*

In April of 2017, two Transportation Security Administration ("TSA") employees filed lawsuits against RIAC stemming from a 2015 incident. Plaintiffs alleged negligence after suffering from carbon monoxide poisoning from airline equipment located near TSA office space at the airport. RIAC filed a cross claim against the airline seeking contractual indemnification under the lease and operating agreement.

Insurance coverage for the defense has been provided through an aviation commercial liability policy effective July 1, 2015. The policy provides coverage up to a limit of \$200 million per occurrence. The insurer issued a coverage position letter to RIAC on May 10, 2017, stating that it would provide RIAC with defense subject to a reservation of rights as to whether coverage for the claims asserted were excluded by certain policy exclusions.

In October 2021, the jury returned a verdict against RIAC and awarded the plaintiffs a total of \$46 million. RIAC is appealing and the process will likely remain ongoing for months.

On December 2, 2021, RIAC was served with a declaratory judgement complaint filed in federal court by the issuer. The issuer is seeking a declaratory judgement that they do not owe RIAC coverage, indemnity or defense citing a "noise and pollution" exclusion. RIAC challenges this position. The outcome cannot be determined and will not be known for several months.

*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 18. Employer Pension Plans

### A. Summary of Employer Plans

The State provides pension benefits for its employees through multiple retirement benefit plans as outlined below (expressed in thousands):

	Plan	Plan Type	Covered employees	FY 2021 pension expense (credit)	Net pension liability at June 30, 2020 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	\$221,771	\$2,044,888
			Business-type activities	\$3,098	\$21,652
			Special funding – teachers - state share (see Note Section 18-E)	\$137,834	\$1,361,982
B	State Police Retirement Benefits Trust (SPRBT)	Single-employer defined benefit plan – advance funded through a trust	State Police hired after July 1, 1987	\$8,482	\$33,903
C	Judicial Retirement Benefits Trust (JRBT)	Single-employer defined benefit plan – advance funded through a trust	Judges appointed after December 31, 1989	\$2,657	\$8,904
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	\$2,218	\$21,338
E	State Police Retirement Fund Trust (SPRFT)	Single-employer defined benefit plan – advance funded through a trust	State Police hired before July 1, 1987	\$9,301	\$154,720
F	Judicial Non-Contributory Retirement Plan (JNCRP)	Single employer defined benefit – non trustee – pay-as-you-go plan	Judges appointed before January 1, 1990 who retired before July 1, 2012	\$11,487	\$46,533
	<b>Totals</b>			<b>\$396,848</b>	<b>\$3,693,920</b>
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	\$5,400	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

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, 2019 actuarial valuations (with the exception of JNCRP which has a June 30, 2020 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	11,224	3,784	8,071	3,247	26,326
JRBT	26	1	14	41	82
RIJRFT	2	—	5	—	7
SPRBT	73	56	56	204	389
SPRFT	259	—	—	—	259
JNCRP	47	—	—	—	47

#### 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 35 <sup>th</sup> 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 38 <sup>th</sup> 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 participate solely in the defined benefit plan. Members 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, age 64 with 31 years of service, age 63 with 32 years of service or age 62 with 33 years of service. Members may retire earlier if their RIRSA date is earlier or are eligible under a transition rule.



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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 \$27,608 (indexed as of January 1, 2021) 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 \$27,608 is replaced with \$33,130 (indexed as of January 1, 2021) until the funded ratio of the ERS, SPRBT and JRBT, calculated by the system's actuary on an aggregate basis, exceeds 80%. At such time, the benefit adjustments will then be provided on the lower amount (currently indexed at \$27,608).

**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 \$27,608 (indexed as of January 1, 2021) 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 \$27,608 is replaced with \$33,130 (indexed as of January 1, 2021) until the funded ratio of the ERS, SPRBT and JRBT, calculated by the system's actuary on an aggregate basis, exceeds 80%. At such time, the benefit adjustments will then be provided on the lower amount (currently indexed at \$27,608).

**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 fifty-one (51) 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 have reached the age of 65 years, or have 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 have 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.

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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 \$27,608 (indexed as of January 1, 2021) 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 \$27,608 is replaced with \$33,130 (indexed as of January 1, 2021) until the funded ratio of the ERS, SPRBT and JRBT, calculated by the system's actuary on an aggregate basis, exceeds 80%. At such time, the benefit adjustments will then be provided on the lower amount (currently indexed at \$27,608).

**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.

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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 \$27,608 (indexed as of January 1, 2021) 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 \$27,608 is replaced with \$33,130 (indexed as of January 1, 2021) until the funded ratio of the ERS, SPRBT and JRBT, calculated by the system's actuary on an aggregate basis, exceeds 80%. At such time, the benefit adjustments will then be provided on the lower amount (currently indexed at \$27,608).

**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 \$27,608 (indexed as of January 1, 2021) 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 \$27,608 is replaced with \$33,130 (indexed as of January 1, 2021) until the funded ratio of the ERS, SPRBT and JRBT, calculated by the system's actuary on an aggregate basis, exceeds 80%. At such time, the benefit adjustments will then be provided on the lower amount (currently indexed at \$27,608).

### **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-trusted 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-trusted 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, 2020 is approximately \$3.2 billion and the State's 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, 2020 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 42.63%, a decrease of (0.20)% 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 make annual actuarially determined contributions to the respective defined benefit plans.

Actuarially determined contributions are calculated as of June 30, two years prior to the commencement of the fiscal year in which the contributions are reported. The actuarially determined contribution rates (or amounts if not expressed as a rate) for fiscal 2021 were determined based on valuations performed as of June 30, 2019 for all plans, with the exception of RIJRFT which was determined based on a valuation performed as of June 30, 2020.

The Rhode Island Judicial Retirement Fund Trust is not currently advance 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 20 years from June 30, 2020. The actuarial accrued liability will be fully amortized by year 2040.

The non-contributory judges (JNCRP) plan is financed on a pay-as-you-go basis. Upon Statutory creation of the RISPRFT in fiscal 2017, an annual contribution amount totaling \$16.4 million was actuarially determined. This amount has been contributed annually since 2017.

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, 2021 is provided in the table below:

	ERS	JRBT	RIJRFT*	SPRBT	SPRFT*	JNCRP**
Contribution rate:						
State	27.54%	21.61%	\$1,242	19.82%	\$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	10.75%	—	—	—	—	—
Contributions made for state employees	\$185,904	\$2,246	\$399	\$5,241	\$16,387	\$4,184
Contribution made for teachers	\$112,623	—	—	—	—	—

\*Actuarially determined contribution not expressed as a rate

\*\*JNCRP is a pay-as-you-go plan.

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 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

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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 2021, no supplemental contribution was required in accordance with this provision of the General Laws.

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 \$197 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 actual proportionate share of employer contributions required by the State varies slightly from 40% due to differences in the amortization period for the unfunded liability between the State and teacher units which is reflected in the actuarially determined contribution for the State share and the local teacher share. This results in the actual dollar amount of State contributions to be proportionately larger than the stated statutory amount of 40%.



## 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 2020. The State's proportion for the ERS Plan for State employees was 89.92%, an increase of 0.26% since the prior reporting period. At June 30, 2020 measurement date, the Lottery's proportion was 0.95%, an increase of 0.03% 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, 2020 (expressed in thousands and excluding amounts related to teachers under the special funding arrangement discussed above):

<b>Total Net Pension Liability - Employees' Retirement System (ERS) - State Employees</b>	\$				2,274,146
<i>Less portion attributable to other entities:</i>					
Enterprise Fund - Rhode Island Lottery	\$				(21,652)
Discretely Presented Component Units					
University of Rhode Island	\$	115,632			
Rhode Island College		40,248			
Community College of RI		31,746			
RI Division of Higher Education Assistance		277			
RI Commerce Corporation		305			
RI Airport Corporation		1,697			
					(189,905)
Related organization - Narragansett Bay Commission					(17,701)
<b>ERS - Net Pension Liability - Governmental Activities</b>	\$				2,044,888
<b>Net Pension Liability - Single Employer Defined Benefit Pension Plans</b>					
JRBT					8,904
RIJRFT					21,338
SPRBT					33,903
SPRFT					154,720
JNCRP					46,533
<b>Total Net Pension Liability</b>	\$				<u>2,310,286</u>

Further details regarding the State's total pension liability and net pension liability for the single employer trustee defined benefit pension plans (expressed in thousands) which was measured as of June 30, 2020 is presented below:

	JRBT	RIJRFT	SPRBT	SPRFT
Total pension liability	\$ 89,062	\$ 22,452	\$ 187,812	\$ 171,976
Plan fiduciary net position	80,158	1,114	153,909	17,256
Net pension liability	\$ 8,904	\$ 21,338	\$ 33,903	\$ 154,720
Plan fiduciary net position as a percentage of total pension liability	90.0 %	5.0 %	81.9 %	10.0 %

**a. Actuarial assumptions used in determining total pension liability**

The total pension liability was determined by actuarial valuations performed as of June 30, 2019 and rolled forward to the June 30, 2020 measurement date, with the exception of JNCRP. The total pension liability for JNCRP is based on a valuation performed as of June 30, 2020. The following table summarizes the actuarial assumptions, applied to all periods included in the measurement.

	ERS						
	State Employees	Teachers	JRBT	RIJRFT	SPRBT	SPRFT	JNCRP
Valuation Date	6/30/2019 rolled forward to 6/30/2020	6/30/2019 rolled forward to 6/30/2020	6/30/2019 rolled forward to 6/30/2020	6/30/2019 rolled forward to 6/30/2020	6/30/2019 rolled forward to 6/30/2020	6/30/2019 rolled forward to 6/30/2020	06/30/20
Actuarial Cost Method	Entry Age Normal-the Individual Entry Age Actuarial Cost methodology is used						
<u>Assumptions</u>							
Investment Rate of Return	7.00%	7.00%	7.00%	2.45%	7.00%	7.00%	2.45%
Projected Salary increases	3.25% to 6.25%	3.00% to 13.00%	2.75%	2.75%	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	Variants of the Pub-10 Median mortality tables-for the improvement scale, update to the ultimate rates of the MP16 projection scale.						
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 second such COLA was provided in fiscal 2021. As of June 30, 2019, it is assumed that the COLAs will be suspended for 8 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 3.5%.						

**Factors affecting trends for amounts related to the net pension liability**

The actuarial assumptions used in the calculation of the total pension liability at the June 30, 2020 measurement date were consistent with the 2020 Actuarial Experience Investigation Study for the six year period ended June 30, 2019.

As part of the 2020 Actuarial Experience Study, certain assumptions were modified and reflected in the determination of net pension liability (asset) at the June 30, 2020 measurement date. Significant changes in assumptions included:

- Updated the underlying mortality tables from the RP-2014 set of tables to the public sector-based PUB (10) tables.
- Increased slightly the probabilities of turnover.
- Decreased slightly the probabilities of retirement.
- Modified slightly the probabilities of disability, including adding material incidence of disability for members in the age ranges that historically have been eligible to retire but under prospective provisions are not.



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 39 sources. 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.

The June 30, 2020 expected arithmetic returns over the long term (20 years) by asset class are summarized in the following table:

Asset Class	Long-term Asset allocation	Long-term Expected Arithmetic Real Rate of Return
<b><i>GROWTH</i></b>		
<b>Global Equity</b>		
U.S. Equity	23.00 %	6.31 %
International Developed Equity	12.10 %	6.71 %
Emerging Markets Equity	4.90 %	8.69 %
<b>Private Growth</b>		
Private Equity	11.25 %	9.71 %
Non-Core Real Estate	2.25 %	5.66 %
Opportunistic Private Credit	1.50 %	9.71 %
<b><i>INCOME</i></b>		
High Yield Infrastructure	1.00 %	3.88 %
REITS	1.00 %	5.66 %
Equity Options	2.00 %	6.04 %
EMD (50/50 Blend)	2.00 %	2.28 %
Liquid Credit	2.80 %	3.88 %
Private Credit	3.20 %	3.88 %
<b><i>STABILITY</i></b>		
<b>Crisis Protection Class</b>		
Treasury Duration	5.00 %	0.10 %
Systematic Trend	5.00 %	3.84 %
<b>Inflation Protection</b>		
Core Real Estate	3.60 %	5.66 %
Private Infrastructure	2.40 %	6.06 %
TIPs	2.00 %	0.74 %
<b>Volatility Protection</b>		
IG Crop Credit	3.25 %	1.54 %
Securitized Credit	3.25 %	1.54 %
Absolute Return	6.50 %	3.84 %
Cash	2.00 %	0.10 %
	100.00 %	

#### **b. Discount rate**

The discount rate used to measure the total pension liability of the plans was 7.0% for all plans but the RIJRT 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 all but one system.

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", 2.45% at June 30, 2020) 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 2.45% at June 30, 2020 was used in the determination of the net pension liability (asset) 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	\$ 2,439,070	\$ 2,044,888	\$ 1,569,191
ERS - Teachers (State share)	\$ 1,634,163	\$ 1,361,982	\$ 1,033,504
JRBT	\$ 16,816	\$ 8,904	\$ (642)
SPRBT	\$ 50,431	\$ 33,903	\$ 13,958
SPRFT	\$ 170,836	\$ 154,720	\$ 135,272
	1.00% Decrease (1.45%)	Municipal Bond Index Rate (2.45%)	1.00% Increase (3.45%)
RIJRFT	\$ 23,269	\$ 21,338	\$ 19,002
JNCRP	\$ 50,389	\$ 46,533	\$ 43,195

#### 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	\$ 25,826	\$ 21,652	\$ 16,615

## 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*
<b>Total Pension Liability</b>					
Service cost	\$ 3,335	\$ 323	\$ 5,788	\$ —	\$ —
Interest	5,663	640	12,405	11,878	1,170
Benefit changes	—	—	—	—	—
Differences between expected and actual experience	180	(646)	(3,126)	(162)	3,560
Changes of assumptions	2,515	2,060	1,541	(1,136)	6,757
Benefit payments	(3,724)	(399)	(6,229)	(16,581)	(4,659)
<b>Net change in Total Pension Liability</b>	<b>7,969</b>	<b>1,978</b>	<b>10,379</b>	<b>(6,001)</b>	<b>6,828</b>
<b>Total Pension Liability - beginning</b>	<b>81,093</b>	<b>20,474</b>	<b>177,433</b>	<b>177,977</b>	<b>39,705</b>
<b>Total Pension Liability - ending</b>	<b>\$ 89,062</b>	<b>\$ 22,452</b>	<b>\$ 187,812</b>	<b>\$ 171,976</b>	<b>\$ 46,533</b>
<b>Plan Fiduciary Net Position</b>					
Employer contributions	\$ 2,189	\$ 399	\$ 4,878	\$ 16,387	\$ 4,656
Employee contributions	1,204	126	2,346	—	—
Net investment income	2,955	23	5,642	868	—
Benefit payments	(3,724)	(399)	(6,229)	(16,581)	(4,656)
Administrative expenses	(80)	(1)	(158)	(17)	—
Other	—	—	25	—	—
<b>Net change in Fiduciary Net Position</b>	<b>\$ 2,544</b>	<b>\$ 148</b>	<b>\$ 6,504</b>	<b>\$ 657</b>	<b>\$ —</b>
<b>Plan Fiduciary Net Position - beginning</b>	<b>77,614</b>	<b>966</b>	<b>147,405</b>	<b>16,599</b>	<b>—</b>
<b>Plan Fiduciary Net Position - ending</b>	<b>\$ 80,158</b>	<b>\$ 1,114</b>	<b>\$ 153,909</b>	<b>\$ 17,256</b>	<b>\$ —</b>
<b>Net Pension Liability</b>	<b>\$ 8,904</b>	<b>\$ 21,338</b>	<b>\$ 33,903</b>	<b>\$ 154,720</b>	<b>\$ 46,533</b>

\*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, 2021 the State recognized net pension expense of \$259.0 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 \$137.8 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, 2021 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:

	<u>State Employees</u>	<u>Teachers</u>	<u>Totals</u>
<u>Deferred Outflows of Resources</u>			
State contributions subsequent to the measurement date	\$ 184,004	\$ 112,623	\$ 296,627
Net difference between projected and actual earnings on pension plan investments	40,885	27,651	68,536
Differences between expected and actual experience	17,579	13,317	30,896
Changes of assumptions	48,252	60,801	109,053
Changes in proportion and differences between employer contributions and proportionate share of contributions	10,745	30,510	41,255
Totals	<u>\$ 301,465</u>	<u>\$ 244,902</u>	<u>\$ 546,367</u>
<u>Deferred Inflows of Resources</u>			
Net difference between projected and actual earnings on pension plan investments	—	—	\$ —
Differences between expected and actual experience	1,412	26,543	27,955
Changes of assumptions	40,230	31,739	71,969
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	19,681	19,681
Totals	<u>\$ 41,642</u>	<u>\$ 77,963</u>	<u>\$ 119,605</u>

The \$184.0 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, 2022. In addition, the \$112.6 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, 2022. 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):

	<u>State Employees</u>	<u>Teachers</u>
Year ended June 30:		
2021	\$ 36,886	\$ 6,301
2022	20,105	23,875
2023	13,138	30,309
2024	7,044	8,829
2025	(1,354)	(8,342)
Thereafter	—	(6,658)
	<u>\$ 75,819</u>	<u>\$ 54,314</u>

## Business-type Activities:

For the year ended June 30, 2021, the Lottery, a proprietary fund of the State, recognized pension expense of \$3.1 million. At June 30, 2021, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows of Resources

Contributions subsequent to the measurement date	\$	1,900
Net difference between projected and actual earnings on pension plan investments		433
Differences between expected and actual experience		186
Changes of assumptions		511
Changes in proportion and differences between employer contributions and proportionate share of contributions		2,690
Totals	\$	<u>5,720</u>

Deferred Inflows of Resources

Net difference between projected and actual earnings on pension plan investments	\$	—
Differences between expected and actual experience		15
Changes of assumptions		426
Changes in proportion and differences between employer contributions and proportionate share of contributions		84
Totals	\$	<u>525</u>

The \$1.9 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, 2022. 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:		
2021	\$	1,112
2022		1,001
2023		906
2024		270
2025		6
Thereafter		—
	\$	<u>3,295</u>

**Other Single Employer Pension Plans**

For the fiscal year ended June 30, 2021 the table below provides information about pension expense (credit) recognized for each of the State's five single employer plans (expressed in thousands):

<u>Plan</u>	<u>Annual Pension Expense (Credit)</u>
JRBT	\$ 2,657
RIJRFT	2,218
SPRBT	8,482
SPRFT	9,301
JNCRP	11,487
Total	<u>\$ 34,145</u>

At June 30, 2021 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):

	<u>JRBT</u>	<u>RIJRFT</u>	<u>SPRBT</u>	<u>SPRFT</u>	<u>JNCRP</u>	<u>Totals</u>
<u>Deferred Outflows of Resources</u>						
Employer contributions subsequent to the measurement date	\$ 2,246	\$ 399	\$ 5,241	\$ 16,387	\$ 4,184	\$ 28,457
Net difference between projected and actual earnings on pension plan investments	1,390	—	2,586	161	—	4,137
Differences between expected and actual experience	146	—	8,217	—	—	8,363
Change of Assumptions	3,187	—	6,960	—	—	10,147
Totals	<u>\$ 6,969</u>	<u>\$ 399</u>	<u>\$ 23,004</u>	<u>\$ 16,548</u>	<u>\$ 4,184</u>	<u>\$ 51,104</u>
<u>Deferred Inflows of Resources</u>						
Net difference between projected and actual earnings on pension plan investments	\$ —	\$ 8	\$ —	\$ —	\$ —	8
Differences between expected and actual experience	3,162	—	6,463	—	—	9,625
Change of assumptions	—	—	118	—	—	118
Totals	<u>\$ 3,162</u>	<u>\$ 8</u>	<u>\$ 6,581</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 9,751</u>

The amount of \$28.5 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, 2022. 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
2022	\$ (165)	\$ (8)	\$ 1,128	\$ (143)	\$ —	\$ 812
2023	(29)	(3)	2,124	119	—	2,211
2024	618	—	2,376	128	—	3,122
2025	1,005	2	2,291	57	—	3,355
2026	132	—	1,423	—	—	1,555
Thereafter	—	—	1,839	—	—	1,839
	<u>\$ 1,561</u>	<u>\$ (9)</u>	<u>\$ 11,181</u>	<u>\$ 161</u>	<u>\$ —</u>	<u>\$ 12,894</u>

#### J. 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. Plan Assets are held by J. P. Morgan as investment custodian. 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.

**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 \$5.4 million for the fiscal year ended June 30, 2021, equal to 100% of the required contributions for the fiscal year.

**Investment options** – See Note 2C, Other Investments - Defined Contribution Plan.

**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 a certain age 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>.

## K. 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, 2021, 787 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](http://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 \$0.77 to \$1.73 per hour up to a maximum of 1,820 hours per year to the Plan for calendar year 2021. 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.

## 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 a certain age 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 \$21.1 million during the year ended June 30, 2021.

The Rhode Island Public Transit Authority has two single-employer defined benefit pension plans that cover eligible employees which are described below. Other information about the plans can be found in the audited financial statements of RIPTA which are available at [www.ripta.com](http://www.ripta.com).

- The first plan, RIPTA Employees' Pension Plan, covers employees of the Authority who work more than 1,000 hours per year. There are no age or minimum service requirements and employees are eligible to participate immediately upon employment. Any changes to the plan are subject to the collective bargaining process. Plan benefits and other provisions are established by the plan document. The Plan is administered by the Authority's Joint Pension Board. The plan provides retirement, disability and death benefits. 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 between 3% and 4% of their base salary to the 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 the June 30, 2020 measurement date the plans' total pension liabilities exceeded the plans' fiduciary net position by an aggregate amount of \$78.5 million. Accordingly, a net pension liability of that amount has been recorded as of June 30, 2021. For the fiscal year ended June 30, 2021 pension expense of \$14.4 million was recorded related to the plan.
- The second plan, Laborers' International Union of North America National Pension Fund, covers all employees who are members of the Local 808 union. The Plan is administered by the Fund's

Board of Trustees. The plan provides retirement, disability and death benefits to plan members. An employee is eligible to receive pension benefits if they have attained age 62, have five or more years of pension credit and have earned at least one of the years of pension credit during the period that his or her employer is contributing to the plan. The amount of regular pension benefits payable to an employee is determined by the highest contribution rate at which he or she earned pension credit and years of pension credits earned (up to a maximum of 30 years of pension credits). The contribution requirements of the Authority and employees are established by contract and may be amended by union negotiation. Employees are required to contribute \$1.46 per hour up to a maximum of 40 hours per week to the Plan for calendar year 2021. The Authority is not required to contribute to the Plan.

Certain other component units have defined benefit pension plans, defined contribution pension plans, and deferred compensation retirement plans. For information regarding these pension and savings plans, please refer to the component units' separately issued financial reports.

## Note 19. 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 2021 OPEB expense (credit)	Net OPEB liability (asset) at June 30, 2020 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	\$ 16,190	\$ 324,502
			Business-type activities	\$ 307	\$ 3,420
B	Teachers	Single-employer plan – advance funded through a trust	Certified public school teachers electing to participate in the System	\$ (1,944)	\$ (4,445)
C	Judges	Single-employer plan - advance funded through a trust	Judges and magistrates	\$ (610)	\$ (4,490)
D	State Police	Single-employer plan - advance funded through a trust	State police officers	\$ 2,031	\$ 17,338
E	Legislators	Single-employer plan - advance funded through a trust	Retired and former members of the General Assembly	\$ (196)	\$ (2,291)
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	\$ 6	\$ 89
	<b>Totals</b>			\$ 15,784	\$ 334,123

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, One 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 previously are recognized in the financial statements based on the provisions of GASB Statement No. 75.

Plan membership, based on the June 30, 2019 actuarial valuations, is summarized in the table below:

	Retirees and beneficiaries	Active	Total by Plan
State Employees	6,698	11,184	17,882
Teachers	99	N/A	99
Judges	33	61	94
State Police	163	261	424
Legislators	15	113	128
Board of Education (BOE)	857	1,869	2,726
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

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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.

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## 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 0.9% 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.

The State and other participating employers are required by law to fund the plans on an actuarially determined basis. For the fiscal year ended June 30, 2021, the State and other participating employers paid \$51 million into the plans.

The fiscal 2021 contribution rates for the six plans in the System were based on the actuarial valuation of those plans performed as of June 30, 2018.

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, 2021 is provided in the table below:

	State Employees	Teachers	Judges	State Police	Legislators	BOE
Contribution rate:						
Employer	5.49 %	— *	— *	23.31 %	— *	2.93 %
Plan members	—	—	—	—	—	0.9 %
Contributions made	\$ 37,377	\$ —	\$ —	\$6,178	\$ —	\$ 12

\* 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 2020. The State's proportion for the State Employees Plan and Board of Education Plan for State employees was 89.9% and 0.25%, respectively. At the June 30, 2020 measurement date, the Lottery's proportionate share of the net OPEB liability, reported under Business-type activities, was 0.95%.

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, 2020 (expressed in thousands):

**Net OPEB Liability - Multiple Employer Cost-sharing OPEB Plans:**

Total Net OPEB Liability - State Employees Plan	\$ 360,904
<i>Less portion attributable to other entities:</i>	
Enterprise Fund - Rhode Island Lottery	\$ (3,420)
Discretely Presented Component Units	
University of Rhode Island	\$ 18,380
Rhode Island College	6,407
Community College of RI	5,046
RI Division of Higher Education Assistance	35
RI Commerce Corporation	48
RI Airport Corporation	264
	<u>(30,180)</u>
Related organization - Narragansett Bay Commission	<u>(2,802)</u>
State Employees Plan - State's Share of Net OPEB Liability - Governmental Activities	\$ 324,502
Board of Education Plan - State's Share of Net OPEB Liability - Governmental Activities	<u>89</u>
State's Share of Net OPEB Liability - Multiple Employer Cost-sharing Plans - Governmental Activities	<u>\$ 324,591</u>
State Employees Plan - Rhode Island Lottery's Share of Net OPEB Liability - Business-type Activities	<u>\$ 3,420</u>
Total State's Share of Net OPEB Liability - Multiple Employer Cost-sharing Plans	<u>\$ 328,011</u>
<b>Net OPEB Liability (Asset) - Single Employer Plans:</b>	
Net OPEB Liability - Single Employer OPEB Plans	
State Police	17,338
Total Net OPEB Liability	<u>\$ 17,338</u>
<b>Net OPEB Liability - All Plans</b>	<u>\$ 345,350</u>
<b>Net OPEB (Asset) - Single Employer OPEB Plans</b>	
Teachers	\$ (4,445)
Judges	(4,490)
Legislators	(2,291)
<b>Total Net OPEB (Asset)</b>	<u>\$ (11,226)</u>

	Statement of Net Position		
	Governmental	Business-Type	
	Activities	Activities	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Net OPEB Liability	\$ 341,930	\$ 3,420	\$ 345,350
Net OPEB (Asset)	\$ (11,226)	\$ —	\$ (11,226)

Further details regarding the State's total OPEB liability and net OPEB liability (asset) for the single employer trustee OPEB plans (expressed in thousands) which was measured as of June 30, 2020 is presented below:

	Teachers	Judges	State Police	Legislators
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total OPEB liability	\$ 9,984	\$ 322	\$ 83,749	\$ 1,231
Plan fiduciary net position	14,429	4,812	66,411	3,522
Net OPEB liability (asset)	\$ (4,445)	\$ (4,490)	\$ 17,338	\$ (2,291)
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Plan fiduciary net position as a percentage of total OPEB liability (asset)	144.53 %	1494.26 %	79.30 %	286.23 %
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>



**a. Actuarial assumptions used in determining total OPEB liability**

The total OPEB liability was determined by an actuarial valuation performed as of June 30, 2019 and rolled forward to the June 30, 2020 measurement date using the following actuarial assumptions, applied to all periods included in the measurement.

Summary of Actuarial Methods and Assumptions						
	Plan					
	State Employees	Teachers	Judges	State Police	Legislators	Board of Education
<b>Actuarial Cost Method</b>	Individual Entry Age					
<b>Actuarial Assumptions</b>						
<b>Investment Rate of Return</b>	5.00%					
<b>Projected Salary Increases</b>	3.0% to 6.0%	N/A	3.0%	4.0% to 14.0%	3.0% to 6.0%	3.0% to 6.0%
<b>Valuation Health Care Cost Trend Rate</b>	8.25% in 2020, grading to 3.5% in 2033					
<b>Mortality Rates</b>	<p>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.</p> <p>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.</p> <p>Healthy Male State Employees and Police: RP-2014 Combined Healthy for males with Blue Collar adjustment, projected with the MP 2016 ultimate rates.</p> <p>Healthy Female State Employees and Police: RP- 2014 Combined Healthy for females, projected with the MP2016 ultimate rates.</p>					
<b>Excise Tax Under the Patient Protection and Affordable Care Act</b>	None. H.R. 1865, Further Consolidated Appropriation Act of 2020 repealed the excise tax ("Cadillac tax") provision of the Affordable Care Act.					
<b>Note:</b> Although an inflation rate was not explicitly used, for purposes of determining total OPEB liability inflation was consistent with a 2.5% assumption.						

The actuarial assumptions used in the June 30, 2019 valuation and the calculation of the total OPEB liability (asset) at June 30, 2020 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 expectations from 39 nationally recognized consulting firms. The June 30, 2020 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%	6.31%
Fixed Income	35%	1.57%

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%, 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	\$ 400,729	\$ 324,502	\$ 261,370
Teachers	\$ (3,499)	\$ (4,445)	\$ (5,258)
Judges	\$ (4,475)	\$ (4,490)	\$ (4,507)
State Police	\$ 24,112	\$ 17,338	\$ 11,223
Legislators	\$ (2,204)	\$ (2,291)	\$ (2,394)
BOE	\$ 121	\$ 89	\$ 63

##### 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	\$ 4,223	\$ 3,420	\$ 2,754

**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 8.25% 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	\$ 246,863	\$ 324,502	\$ 421,941
Teachers	\$ (5,306)	\$ (4,445)	\$ (3,459)
Judges	\$ (4,510)	\$ (4,490)	\$ (4,468)
State Police	\$ 9,124	\$ 17,338	\$ 26,942
Legislators	\$ (2,413)	\$ (2,291)	\$ (2,182)
BOE	\$ 58	\$ 89	\$ 129

## Business-type Activities:

	1.00% Decrease	Healthcare Cost Trend Rate	1.00% Increase
Rhode Island Lottery:			
OPEB Plan - State Employees	\$ 2,601	\$ 3,420	\$ 4,446

**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
<b>Total OPEB Liability</b>				
Service cost	\$ —	\$ 22	\$ 4,481	\$ 57
Interest	556	64	4,391	80
Changes of benefit terms	—	—	—	—
Difference between expected and actual experience	(1,212)	(960)	(2,230)	(83)
Changes of assumptions	(164)	(69)	(6,974)	(350)
Benefit payments, net of retiree contributions	(629)	(18)	(3,009)	(85)
<b>Net change in Total OPEB Liability</b>	<b>(1,449)</b>	<b>(961)</b>	<b>(3,341)</b>	<b>(381)</b>
<b>Total OPEB Liability - beginning</b>	<b>11,433</b>	<b>1,283</b>	<b>87,090</b>	<b>1,612</b>
<b>Total OPEB Liability - ending</b>	<b>\$ 9,984</b>	<b>\$ 322</b>	<b>\$ 83,749</b>	<b>\$ 1,231</b>
<b>Plan Fiduciary Net Position</b>				
Employer contributions	\$ —	\$ —	\$ 7,797	\$ —
Net investment income	1,082	327	4,775	263
Benefit payments	(629)	(18)	(3,009)	(85)
Administrative expenses	(24)	(2)	(35)	(2)
Other	150	56	335	79
<b>Net change in Fiduciary Net Position</b>	<b>\$ 579</b>	<b>\$ 363</b>	<b>\$ 9,863</b>	<b>\$ 255</b>
<b>Plan Fiduciary Net Position - beginning</b>	<b>13,850</b>	<b>4,449</b>	<b>56,548</b>	<b>3,267</b>
<b>Plan Fiduciary Net Position - ending</b>	<b>\$ 14,429</b>	<b>\$ 4,812</b>	<b>\$ 66,411</b>	<b>\$ 3,522</b>
<b>Net OPEB Liability (Asset)</b>	<b>\$ (4,445)</b>	<b>\$ (4,490)</b>	<b>\$ 17,338</b>	<b>\$ (2,291)</b>

## 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, 2021 the State recognized OPEB expense of \$16.5 million related to State employees who are covered by the OPEB cost-sharing plans administered by the System.

At June 30, 2021 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:

	<u>State Employees</u>	<u>BOE</u>	<u>Totals</u>
<u>Deferred Outflows of Resources</u>			
State contributions subsequent to the measurement date	\$ 36,998	\$ 12	\$ 37,010
Differences between expected and actual experience	—	10	10
Changes of assumptions	14,818	6	14,824
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,527	30	2,557
Totals	<u>\$ 54,343</u>	<u>\$ 58</u>	<u>\$ 54,401</u>
<u>Deferred Inflows of Resources</u>			
Differences between expected and actual experience	\$ 65,997	\$ 22	\$ 66,019
Net difference between projected and actual investment earnings	13,855	7	13,862
Changes of Assumptions	19,626	6	19,632
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	12	12
Totals	<u>\$ 99,478</u>	<u>\$ 47</u>	<u>\$ 99,525</u>

The \$37.0 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, 2022. 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):

	<u>State Employees</u>	<u>BOE</u>
Year ended June 30:		
2021	\$ (16,620)	\$ (3)
2022	(15,189)	(2)
2023	(14,146)	(2)
2024	(12,886)	—
2025	(11,545)	3
Thereafter	(11,748)	3
	<u>\$ (82,134)</u>	<u>\$ (1)</u>

Business-type Activities:

For the year ended June 30, 2021, the Lottery, a proprietary fund of the State, recognized OPEB expense of \$307 thousand. At June 30, 2021, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Deferred Outflows of Resources

Contributions subsequent to the measurement date	\$ 379
Changes of assumptions	156
Changes in proportion and differences between employer contributions and proportionate share of contributions	774
Totals	<u>\$ 1,309</u>

Deferred Inflows of Resources

Differences between expected and actual experience	\$ 695
Net difference between projected and actual investment earnings	146
Changes of assumptions	207
Totals	<u>\$ 1,048</u>

The \$379 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, 2021. 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:		
2021	\$	(39)
2022		(24)
2023		(13)
2024		—
2025		7
Thereafter		(49)
	\$	<u>(118)</u>

#### **Other Single Employer OPEB Plans**

For the fiscal year ended June 30, 2021 the table below provides information about OPEB expense (credit) recognized for each of the State's four single employer plans (expressed in thousands):

Plan	Annual OPEB Expense (Credit)
Teachers	\$ (1,944)
Judges	(610)
State Police	2,031
Legislators	(196)
Total	<u>\$ (719)</u>

The June 30, 2020 measurement date information includes pension credits of \$1,944 thousand, \$610 thousand, and \$196 thousand for the Teachers' plan, the Judges' plan, and the Legislators' plan, respectively. These credits result from several factors including recognition of investment gains, recognition of experience gains, changes to underlying healthcare plans and the reduction of certain liabilities.

At June 30, 2021 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
<u>Deferred Outflows of Resources</u>					
Employer contributions subsequent to the measurement date	\$ —	\$ —	\$ 6,178	\$ —	\$ 6,178
Differences between expected and actual experience	—	44	478	334	856
Change of Assumptions	—	—	—	—	—
Totals	\$ —	\$ 44	\$ 6,656	\$ 334	\$ 7,034
<u>Deferred Inflows of Resources</u>					
Differences between expected and actual experience	\$ —	\$ 724	\$ 2,616	\$ 74	\$ 3,414
Change of assumptions	—	56	9,679	362	10,097
Net difference between projected and actual investment earnings	805	240	3,740	227	5,012
Totals	\$ 805	\$ 1,020	\$ 16,035	\$ 663	\$ 18,523

The amount of \$6.2 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, 2022. 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:				
2021	\$ (317)	\$ (350)	\$ (3,588)	\$ (95)
2022	(230)	(319)	(3,206)	(66)
2023	(178)	(286)	(2,925)	(45)
2024	(80)	(21)	(1,720)	(35)
2025	—	—	(1,247)	(32)
Thereafter	—	—	(2,871)	(56)
	\$ (805)	\$ (976)	\$ (15,557)	\$ (329)

## G. Component Unit Postemployment Benefit Plans

### *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, 2021 the plan's total OPEB liability totaled \$73.9 million. The total OPEB liability was determined by an actuarial valuation as of July 1, 2020 rolled forward to June 30, 2021. For the fiscal year ended June 30, 2021 OPEB expense of \$4.3 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](http://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, 2021 each institution's proportionate share of net OPEB liability related to participation in the plans was as follows (in thousands):

University of Rhode Island	\$	34,020
Rhode Island College		17,633
Community College of Rhode Island		13,834
Total	\$	<u>65,487</u>

The net OPEB liabilities in the table above were measured as of June 30, 2020, the measurement date. 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, 2019 rolled forward to the June 30, 2020 measurement date. The proportion of net OPEB liability for each institution was based on its share of contributions to the Plans for fiscal 2020 relative to the total contributions of all participating employers for that fiscal year.

For the fiscal year ended June 30, 2021 each institution recognized OPEB expense as follows (in thousands):

University of Rhode Island	\$	637
Rhode Island College		589
Community College of Rhode Island		437
Total	\$	<u>1,663</u>



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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](http://www.uri.edu)
- Rhode Island College - [www.ric.edu](http://www.ric.edu)
- Community College of Rhode Island - [www.ccri.edu](http://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 20. 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 a certain age. 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 21. Risk Management

The State uses a combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. The most significant risks include potential loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; employee injury; information technology security and cybersecurity; employee healthcare, Medicaid managed care contracts, and natural disasters.

To manage losses associated with the theft, damage, or loss of assets (most notably, capital assets), the State has entered into various lines of coverage with commercial insurance carriers for insurance coverage, subject to certain deductibles. 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 2021, and the two preceding fiscal years, no settlements exceeded insured coverage limits.

*Employee and certain retiree healthcare* - 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, 2021 and June 30, 2020 was calculated based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

	<u>Liability at July 1, 2020</u>	<u>Current Year Claims and IBNR Estimate</u>	<u>Claim Payments</u>	<u>Liability at June 30, 2021</u>
Health Insurance				
Internal Service Fund				
Unpaid claims	\$ 16,440	\$ 245,300	\$ 248,144	\$ 13,596
	<u>Liability at July 1, 2019</u>	<u>Current Year Claims and IBNR Estimate</u>	<u>Claim Payments</u>	<u>Liability at June 30, 2020</u>
Health Insurance				
Internal Service Fund				
Unpaid claims	\$ 18,542	\$ 237,398	\$ 239,500	\$ 16,440

*Torts* - 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.

*Worker's Compensation* - The State is self-insured for various risks of loss related to work-related injuries of State employees. The State contracts with a claims administrator to handle claims processing and provide certain loss prevention services for an administrative fee; however, the cost of worker's compensation claims (benefits) are paid by the State. 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.

*Medicaid Managed Care* - The State's Medicaid program provides health and dental coverage to a significant percentage of the Medicaid population through risk-based contracts with managed care organizations (MCOs) where the State is exposed to risk when actual medical claims exceed the capitation paid to the MCOs (subject to certain risk corridor limitations). 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.

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*Information Technology Security and Cybersecurity* - The State relies upon a large and complex technology environment to conduct its operations, and accordingly is potentially exposed to cybersecurity threats which could disrupt operations or result in inadvertent disclosure of personal, private, or sensitive information. Additionally, cybersecurity breaches could expose the State to litigation and other legal risks. The State has not obtained insurance coverage specific to cybersecurity risks but does employ multiple forms of cybersecurity and operational safeguards based on strategies developed by the State's Chief Information Security Officer and other coordinating agencies.

### **Discretely Presented Component Units**

The State's component units are also exposed to various risks of loss related to torts, property damage and theft, worker's compensation, employee healthcare, accident and casualty liability, etc.. Component units manage these risks, in most instances, through the purchase of commercial insurance coverage. In certain instances, entities have opted to self-insure and maintain the risk of certain losses.

Specifically, the Rhode Island Public Transit Authority (RIPTA) is self-insured for claims associated with workers' compensation, health insurance and accident and casualty losses. RIPTA has accrued a liability of \$10.8 million at June 30, 2021 for self-insurance claims (accident and casualty related) based on an independent evaluation that it believes is adequate to cover the ultimate liability arising from such claims. However, the recorded liability is based upon estimates of final settlement amounts, which may be more or less than the amounts ultimately paid.

For further detailed information regarding specific component unit risk management practices, please refer to the separately audited financial statements for those entities.

## Note 22. 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
<b>Assets</b>					
Due from other funds	\$ 139,953	\$ 5,544	\$ 145,497	\$ (144,884)	\$ 613
Loans to other funds	57,239	—	57,239	(57,239)	—
Total assets	<u>\$ 197,192</u>	<u>\$ 5,544</u>	<u>\$ 202,736</u>	<u>\$ (202,123)</u>	<u>\$ 613</u>
<b>Liabilities</b>					
Due to other funds	\$ 144,622	\$ 262	\$ 144,884	\$ (144,884)	\$ —
Loans from other funds	48,039	9,200	57,239	(57,239)	—
Total liabilities	<u>\$ 192,661</u>	<u>\$ 9,462</u>	<u>\$ 202,123</u>	<u>\$ (202,123)</u>	<u>\$ —</u>
<b>Program revenue</b>					
General government	\$ —	\$ 426,371	\$ 426,371	\$ (426,371)	\$ —
Public safety	—	7,154	7,154	(7,154)	—
<b>Expenses</b>					
General government	—	(425,193)	(425,193)	425,193	—
Public safety	—	(8,332)	(8,332)	8,332	—
Net revenue (expenses)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
<b>Transfers</b>					
Transfers in	\$ 516,796	\$ —	\$ 516,796	\$ (240,956)	\$ 275,840
Transfers out	(240,956)	—	(240,956)	240,956	—
Net transfers	<u>\$ 275,840</u>	<u>\$ —</u>	<u>\$ 275,840</u>	<u>\$ —</u>	<u>\$ 275,840</u>
<b>Total Business-type Activities</b>					
			Total	Eliminations	Internal Balances
<b>Assets</b>					
Due from other funds	\$ 2,745	\$ —	\$ 2,745	\$ (3,358)	\$ (613)
Total assets	<u>\$ 2,745</u>	<u>\$ —</u>	<u>\$ 2,745</u>	<u>\$ (3,358)</u>	<u>\$ (613)</u>
<b>Liabilities</b>					
Due to other funds	\$ 3,358	\$ —	\$ 3,358	\$ (3,358)	\$ —
Total liabilities	<u>\$ 3,358</u>	<u>\$ —</u>	<u>\$ 3,358</u>	<u>\$ (3,358)</u>	<u>\$ —</u>
<b>Transfers</b>					
Transfers in	\$ 25,963	\$ —	\$ 25,963	\$ (25,963)	\$ —
Transfers out	(301,803)	—	(301,803)	25,963	(275,840)
Net transfers	<u>\$ (275,840)</u>	<u>\$ —</u>	<u>\$ (275,840)</u>	<u>\$ —</u>	<u>\$ (275,840)</u>

### B. Related Party Transactions

*Rhode Island Turnpike and Bridge Authority (RITBA)* - 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 provides administrative and operational functions for the RhodeWorks truck tolling initiative which commenced in fiscal 2018. The

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Authority collected tolls on behalf of the State approximating \$31.9 million during the fiscal year ended June 30, 2021.

*The R.I. Industrial-Recreational Building Authority (RIIRBA)* - 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) 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. The RIIRBA has a net deficit as of June 30, 2021 relating to the insured commitments payable for a bond issued by the RIIFC on behalf of a private-sector entity that is in default on its payments to the bondholder. As the insurer of the bond, the RIIRBA is responsible for making the debt payments. The RIIRBA has estimated the insured commitments payable to be \$2.3 million as of June 30, 2021.

*I-195 Redevelopment District Commission (I-195 RDC)* - 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. State appropriations for debt service were \$2.0 million in fiscal 2021. Also the State appropriated \$1.0 million for operations in fiscal 2021. The State has appropriated \$28 million to I-195 RDC to facilitate the sale of land and project development within the District.

Because Wexford is receiving incentives under the Rebuild Rhode Island Tax Credit Act and the I-195 Redevelopment Project Fund Act, the Commission is requiring Wexford to provide for return to the Commission from cash flows and/or upon a capital event based upon higher than expected returns from the project. Such contractual provisions are intended to recoup funding to the extent the project performs above an expected level of return as determined on a case by case basis. To date, no payment has been made to the Commission under such contractual provisions with respect to the project.

*Rhode Island College (RIC)* - 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 19 years beginning in fiscal 2009.

*Rhode Island Higher Education Savings Trust (RIHEST)* - All non-Rhode Island resident accounts invested in the CollegeBound 529 savings plan operated by RIHEST are assessed a fee, which is paid to the State to support the administration and operation of CollegeBound 529 and the establishment and marketing of educational activities and scholarship funds in the State of Rhode Island. The amount of state administrative fees and expenses includes 0.5 basis points (0.005%) accrued on all investment options in CollegeBound 529, which is remitted to the Treasurer to cover administrative costs, and 1.5 basis points (0.015%) accrued on all investment options in CollegeBound 529, which is used to fund Rhode Island Promise scholarships. For the year ended June 30, 2021 the administrative costs fee totaled \$239 thousand and the scholarship fund contribution totaled \$712 thousand.

In addition to the 1.5 basis points used to fund scholarships discussed above, the investment manager of the fund is required to contribute 9.5 basis points (0.095%) to fund scholarships. Such contributions, which totaled \$4.5 million for the year ended June 30, 2021, are paid directly by the investment manager and are not included in administrative fees and expenses in RIHEST's financial statements.

*Rhode Island Health and Educational Building Corporation (RIHEBC)* - 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. 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 State issued \$70 million of General Obligation Bonds (of the total \$250 million authorized by the voters) in December 2019 to fund the School Construction Bond Program administered by RIHEBC, to provide further assistance to cities and towns for school construction projects. RIHEBC reported bond proceed transfers from the State of \$35.9 million and related project cost expenses of \$18.2 million (approved by the State's School Building Authority) for fiscal 2021.

*Rhode Island Infrastructure Bank (RIIB)* - 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 \$8.8 million was transferred to RIIB for this fund during fiscal 2021. 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 (RICC)* - RICC received various State appropriations totaling approximately \$51.7 million during fiscal 2021 to fund various economic development initiatives on behalf of the State. The Corporation reported approximately \$98.3 million reserved for economic development initiatives at June 30, 2021 relating to State appropriations received in recent years.

The Corporation has on occasion required developers of projects receiving incentives under the Rebuild Rhode Island Tax Credit Program or the Tax Increment Financing Program to provide for return from cash flows and/or upon a capital event based upon higher than expected returns from a project. Such contractual provisions are intended to recoup funding to the extent the project performs above an expected level of return as determined on a case by case basis. To date, no developer has made a payment to the Rhode Island Commerce Corporation under such contractual provisions in relation to a project for which incentives have been provided under the foregoing programs.

*Other Component Units* - 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 22 D, 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.

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As required by the Constitution and the Rhode Island General Laws, annual appropriations are limited to 97.0% of estimated general revenues. The remaining 3.0% is contributed to the Budget Reserve Account until such account equals 5.0% 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

	Amount	Description
Governmental activities		
General		
University of Rhode Island	\$ 78,153	Operating assistance
Rhode Island College	54,304	Operating assistance
Community College of Rhode Island	52,259	Operating assistance
Central Falls School District	56,192	Operating assistance
The Met	11,161	Operating assistance
I-195 District Commission	761	Operating assistance
R.I. Commerce Corporation	51,735	Operating assistance
R.I. Division of Higher Education Assistance	5,579	Operating assistance
R.I. Public Transit Authority	3,546	Operating assistance
R.I. Health and Educational Building Corporation	59,060	School Building Authority Capital Fund/School Housing Aid
IST		
R.I. Public Transit Authority	49,507	Operating assistance
R.I. Turnpike and Bridge Authority	16,164	Infrastructure improvements
Bond Capital		
University of Rhode Island	2,287	Construction, improvement or purchase of assets
Rhode Island College	11,627	Construction, improvement or purchase of assets
R.I. Infrastructure Bank	13,174	Infrastructure improvements, bond proceeds and bond premiums
R.I. Health and Educational Building Corporation	35,920	Infrastructure improvements and bond proceeds
R. I. Capital Plan		
University of Rhode Island	3,419	Construction, improvement or purchase of assets
Rhode Island College	2,423	Construction, improvement or purchase of assets
Community College of Rhode Island	3,304	Construction, improvement or purchase of assets
Total Governmental Activities	<u>\$ 510,575</u>	

## E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2021:

- Central Utilities (\$66 thousand)
- Information Technology (\$1,188 thousand)
- Correctional Industries (\$500 thousand)
- Records Center (\$98 thousand)
- Capitol Police (\$17 thousand)

The deficits will be eliminated through charges for services in fiscal 2022.

## Note 23. Subsequent Events

### Primary Government

*Issuance of Bonds* - In October 2021 the State issued the following General Obligation Bonds; \$90,500,000 Consolidated Capital Development Loan of 2021, Series E (Tax-Exempt)  
\$44,500,000 Consolidated Capital Development Loan of 2021, Series F (Federally Taxable)



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*Employee Contract Negotiations* - The State of Rhode Island reached a four-year agreement with its largest employee union group in December 2021. The agreement includes a retroactive salary agreement for fiscal 2021 with an estimated cost (all funds) approximating \$5.1 million. The agreement includes 2.5% salary increases in each of the next three years and additional benefits. It is expected that the State will reach agreements with other bargaining units with similar terms.

*Legal Settlement* - In January 2022, the State announced its participation in an Opioid Litigation Settlement with three entities that contributed to the Opioid Epidemic through the production, marketing, and distribution of opioids. The State's share of the settlement is estimated at \$114 million over 18 years. The majority of the funding is expected in the first 10 years of the agreement and all funding is to be used for opioids abatement purposes (i.e., treatment, prevention, recovery). Twenty percent (20%) of the funding will go directly to RI's cities and towns for local Opioid Abatement purposes. Further litigation efforts against additional Opioid drug manufacturers continue.

*Federal Funds* - The federal Infrastructure Investment and Jobs Act (IIJA), a 5-year transportation funding package, provides RIDOT with an additional \$576 million of federal funds over a five-year period to expedite 100 projects valued at \$2.1 billion in the state Transportation Improvement Program. State matching funding will be combined with the federal funds to accelerate these improvements. Funding from the IIJA in total is expected to approximate \$1.7 billion for transportation infrastructure and bridge replacement in the State. In addition, the IIJA provides funding for significant investments in the State's airports, transit systems, electric vehicle charging networks, high-speed internet coverage, and drinking water infrastructure, as many of the infrastructure improvements targeted by the act.

### **Component Units**

*Rhode Island Infrastructure Bank - Issuance of Bonds* - In September 2021, Rhode Island Infrastructure Bank issued \$127.6 million in State Revolving Fund Refunding Revenue Bonds, Series 2021A. As part of the sale, the Bank refunded \$106.4 million of outstanding bonds.

*Rhode Island Public Transit Authority - Data Breach* - During August 2021, RIPTA identified unauthorized access to their computer systems. An investigation determined that the personal identification information of a significant number of past and present State employees had been potentially compromised during the incident. RIPTA has offered free credit monitoring to impacted employees and retirees. The Rhode Island Attorney General is investigating the matter. At this time, RIPTA cannot reasonably assess its potential future liability, if any, relating to this incident.

# Required Supplementary Information



**State of Rhode Island**

**Fiscal Year Ended  
June 30, 2021**



**State of Rhode Island**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2021**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues:</b>				
General Revenues:				
Personal Income Tax	\$ 1,450,400	\$ 1,540,516	\$ 1,615,512	\$ 74,996
General Business Taxes:				
Business Corporations	151,300	115,612	201,789	86,177
Public Utilities Gross Earnings	109,600	99,200	93,475	(5,725)
Financial Institutions	18,500	33,800	34,856	1,056
Insurance Companies	133,700	135,100	131,447	(3,653)
Bank Deposits	3,100	3,700	3,819	119
Health Care Provider Assessment	42,000	36,600	35,121	(1,479)
Sales and Use Taxes:				
Sales and Use	1,212,800	1,292,300	1,341,418	49,118
Motor Vehicle	1,000	800	682	(118)
Motor Fuel	—	—	—	—
Cigarettes	155,000	160,000	159,713	(287)
Alcohol	22,000	22,000	22,201	201
Other Taxes:				
Inheritance and Gift	58,100	42,900	42,986	86
Racing and Athletics	400	400	404	4
Realty Transfer Tax	15,400	17,900	17,775	(125)
<i>Total Taxes (1)</i>	<u>3,373,300</u>	<u>3,500,828</u>	<u>3,701,198</u>	<u>200,370</u>
Departmental Revenue	390,000	398,928	402,688	3,760
Total Taxes and Departmental Revenue	<u>3,763,300</u>	<u>3,899,756</u>	<u>4,103,886</u>	<u>204,130</u>
Other Sources:				
Lottery	272,500	288,900	301,803	12,903
Unclaimed Property	10,300	15,600	16,270	670
Other Miscellaneous	10,325	13,800	9,620	(4,180)
Total Other Sources	<u>293,125</u>	<u>318,300</u>	<u>327,693</u>	<u>9,393</u>
Total General Revenues	<u>4,056,425</u>	<u>4,218,056</u>	<u>4,431,579</u>	<u>213,523</u>
Federal Revenues	4,728,135	5,371,634	4,649,356	(722,278)
Restricted Revenues	318,902	345,448	305,523	(39,925)
Other Revenues	67,487	88,213	69,342	(18,871)
<i>Total Revenues (2)</i>	<u>9,170,949</u>	<u>10,023,351</u>	<u>9,455,800</u>	<u>(567,551)</u>
<b>Expenditures (4):</b>				
General government	1,618,044	1,997,784	1,596,636	401,148
Health and human services	4,992,214	5,080,041	4,788,175	291,866
Education	1,925,339	1,944,404	1,862,965	81,439
Public safety	630,399	641,614	587,743	53,871
Natural resources	101,798	104,101	85,374	18,727
<i>Total Expenditures (2)</i>	<u>9,267,794</u>	<u>9,767,944</u>	<u>8,920,893</u>	<u>\$ 847,051</u>
Transfer of scholarship revenue to RI Division of Higher Education (3)	—	—	5,579	
Transfer to Historic Tax Credit Fund (4)			20,000	
Total Expenditures and Transfers	<u>\$ 9,267,794</u>	<u>\$ 9,767,944</u>	<u>\$ 8,946,472</u>	
Change in Fund Balance			509,328	
Fund balance - beginning (as restated)			387,927	
Fund balance - ending			<u>\$ 897,255</u>	

(Continued)

**State of Rhode Island**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2021**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Expenditures by Source:</b>				
General Revenues	\$ 4,153,270	\$ 3,982,649	\$ 3,865,954	\$ 116,695
General Revenues - pending FEMA reimbursement	—	—	212,685	(212,685)
Federal Funds	4,728,135	5,371,634	4,543,552	828,082
Restricted Receipts	318,902	345,448	235,423	110,025
Other Funds	67,487	68,213	63,279	4,934
	<u>\$ 9,267,794</u>	<u>\$ 9,767,944</u>	<u>\$ 8,920,893</u>	<u>\$ 847,051</u>

**General Fund - Reconciliation of Budget Results to Changes in Fund Balance:**

**Budgeted Surplus:**

Total Revenue - Final Budget	\$ 10,023,351	
Total Expenditures - Final Budget	<u>9,767,944</u>	
<b>Final Budget - Projected Surplus</b>		\$ 255,407

**Final Budget and Actual - Results**

Total Revenues - Variance (Actual Revenue less than Budget)	\$ (567,551)
Total Expenditures - Variance (Actual Expenditures less than Budget)	<u>847,051</u>

<b>Surplus resulting from operations compared to final budget</b>	\$ 279,500
Total General Fund Surplus - Fiscal Year Ended June 30, 2021	<u>\$ 534,907</u>

Transfer to RI Division of Higher Education Assistance (3) (5,579)

Transfer to Historic Tax Credit Fund (4) (20,000)

(25,579)

**Net Change in General Fund - Fund Balance** \$ 509,328

Fund Balance, Beginning (as restated) 387,927

Fund Balance, Ending \$ 897,255

**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 2021 by Tax Type:

	General Fund Reported Revenue	Historic Tax Credits Applied Transfer from HTCF	Reported Revenue Budget and Actual
Personal Income	\$ 1,606,554	\$ 8,958	\$ 1,615,512
Business Corporations	201,789	—	201,789
Insurance Corporations	127,285	4,162	131,447
Financial Institutions	34,856	—	34,856

(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) 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.

(4) Transfer to the Historic Tax Credit Fund was reclassified to align with the State's legally adopted budget format.

(Continued)

**State of Rhode Island**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2021**  
**(Expressed in Thousands)**

**(5) Functional Expenditure Reclassifications - Budgetary presentation compared to Financial Statement Presentation:** During Fiscal 2021, certain COVID-19 related expenditures were programmed in the department or agency administering the activity. For financial reporting purposes, certain expenditures have been reclassified to align to the appropriate functional expenditure classification.

	<b>General Government</b>	<b>Health and Human Services</b>	<b>Education</b>	<b>Public Safety</b>	<b>Natural Resources</b>	<b>Debt Service</b>	<b>Transfers</b>	<b>Total Expenditures</b>
<b>Budgetary Presentation</b>	\$ 1,596,636	\$ 4,788,175	\$ 1,862,965	\$ 587,743	\$ 85,374	\$ —	\$ 25,579	\$ 8,946,472
Reclassifications:								
General Government (DOA) reclassified to Health and Human Services - primarily Hospital Assistance Partnership Program	\$ (137,315)	\$ 137,315	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
General Government (DOA) reclassified to Education - primarily additional aid to higher education institutions	\$ (23,007)	\$ —	\$ 23,007	\$ —	\$ —	\$ —	\$ —	\$ —
Debt Service	\$ (155,665)	\$ —	\$ (46,953)	\$ (500)	\$ —	\$ 203,118	\$ —	\$ —
Other Transfers - RICAP	\$ (120,000)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 120,000	\$ —
Other Transfers - RIDHEA	\$ 5,579	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (5,579)	\$ —
Other Transfers - RICCA	\$ (24,915)	\$ (48)	\$ —	\$ —	\$ —	\$ —	\$ 24,963	\$ —
<b>Financial Statement Presentation</b>	\$ 1,141,313	\$ 4,925,442	\$ 1,839,019	\$ 587,243	\$ 85,374	\$ 203,118	\$ 164,963	\$ 8,946,472

**(6) COVID-19 related expenditures funded by federal Coronavirus Relief Fund (CRF)** - certain fiscal 2021 expenditures were funded through new federal funding available to the State to address the effects of the Covid-19 pandemic. The following summarizes the actual expenditures by functional category that were funded by the CRF. Actual expenditures in the budgetary comparison schedule are designated as federal funds; the original and final budget, in most instances, classified these amounts as general revenue funded.

	<b>General Government</b>	<b>Health and Human Services</b>	<b>Education</b>	<b>Public Safety</b>	<b>Natural Resources</b>	<b>Debt Service</b>	<b>Transfers</b>	<b>Total Expenditures</b>
	\$ 556,921	\$ 123,388	\$ 91,771	\$ 191,480	\$ 2,812	\$ —	\$ —	\$ 966,372

(Continued)

**State of Rhode Island**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2021**  
**(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 2022	Fund Balance Available for Appropriation in Fiscal 2022
Nonspendable	\$ 1,538	\$ —	\$ 1,538
Restricted	276,172	276,172	—
Committed	8,135	8,135	—
Assigned	291,985	10,574	(a) 281,411
Unassigned	319,425	227,949	(b) 91,476
<b>Total Fund Balance</b>	<b>\$ 897,255</b>	<b>\$ 522,830</b>	<b>\$ 374,425</b> (c)

(a) Assigned fund balance not available for appropriation in fiscal 2022 includes general revenue appropriations carried forward by the Governor, Judiciary, and Legislature and intra-agency balances assigned for specific purposes.

(b) 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.

(c) Fund balance available for appropriation in fiscal 2022.

(Concluded)

See Notes to Required Supplementary Information.

**State of Rhode Island**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Intermodal Surface Transportation Fund**  
**For the Fiscal Year Ended June 30, 2021**  
*(Expressed in Thousands)*

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues:</b>				
Taxes	\$ 225,668	\$ 225,668	\$ 218,124	\$ (7,544)
Licenses, fines, sales, and services	61,491	61,491	58,596	(2,895)
Departmental restricted revenue	2,711	2,586	—	(2,586)
Federal grants	339,392	404,132	326,705	(77,427)
Other revenues	3,330	10,862	1,643	(9,219)
Total revenues	<u>632,592</u>	<u>704,739</u>	<u>605,068</u>	<u>(99,671)</u>
<b>Revenues and other Financing Sources (unbudgeted):</b>				
Miscellaneous revenue			420	
Total revenues			<u>605,488</u>	
Other Financing Sources:				
Transfers from RI Capital Plan			29	
Total Other Financing Sources			<u>29</u>	
Total Revenues and Other Financing Sources			<u>605,517</u>	
<b>Expenditures (budgeted):</b>				
Central Management				
Federal Funds	10,063	12,723	8,344	4,379
Gasoline Tax	7,524	9,440	7,446	1,994
Total - Central Management	<u>17,587</u>	<u>22,163</u>	<u>15,790</u>	<u>6,373</u>
Management and Budget				
Gasoline Tax	4,775	5,039	3,375	1,664
Total - Management and Budget	<u>4,775</u>	<u>5,039</u>	<u>3,375</u>	<u>1,664</u>
Infrastructure-Engineering-GARVEE/Motor Fuel Tax Bonds				
Federal Funds	329,329	354,363	317,112	37,251
Restricted Receipts	2,711	2,586	1,294	1,292
Gasoline Tax	65,894	73,396	74,437	(1,041)
Toll Revenue	46,946	41,615	44,219	(2,604)
Land Sale Revenue	3,280	10,812	2,437	8,375
Total - Infrastructure - Engineering	<u>448,160</u>	<u>482,772</u>	<u>439,499</u>	<u>43,273</u>
Infrastructure - Maintenance				
Federal Funds	—	37,046	1,446	35,600
Gasoline Tax	17,178	16,152	13,974	2,178
Non-Land Surplus Property	50	50	—	50
Rhode Island Highway Maintenance Account	116,660	118,491	113,621	4,870
Total - Infrastructure - Maintenance	<u>133,888</u>	<u>171,739</u>	<u>129,041</u>	<u>42,698</u>
Total Expenditures (budgeted)	<u>\$ 604,410</u>	<u>\$ 681,713</u>	<u>\$ 587,705</u>	<u>\$ 94,008</u>
<b>Expenditures and Other Financing Uses (unbudgeted):</b>				
Infrastructure Expenditures - GARVEE and State Match funded by RI Capital Plan and Bond Capital Funds			80,390	
I-195 Redevelopment District project			(29)	
Mission 360 Loan Program			7	
Transfers to General Fund - Gas Tax			42,044	
Total Expenditures and Other Financing Uses (unbudgeted)			<u>122,412</u>	
Total Expenditures and Other Financing Uses			<u>710,117</u>	
Net change in fund balance			(104,600)	
Fund balance, beginning			370,418	
Fund balance, ending			<u>\$ 265,818</u>	

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**  
**Required Supplementary Information - 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 2021 reflect a June 30, 2020 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 18 to the financial statements contains detailed information concerning pension plans.

See Notes to Required Supplementary Information

**State of Rhode Island**  
**Required Supplementary Information - Pension Information**  
**Schedule of State's Proportionate Share**  
**of the Net Pension Liability**  
**Last Seven Fiscal Years**  
**(Expressed in Thousands)**

**Employees' Retirement System-State Employees-Governmental Activities**

Year Ended	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
State's proportion of the net pension liability	89.9 %	89.7 %	89.5 %	89.2 %	88.9 %	89.0 %	89.0 %
State's proportionate share of the net pension liability	\$ 2,044,888	\$ 2,031,989	\$ 2,013,417	\$ 2,010,955	\$ 1,887,351	\$ 1,767,095	\$ 1,585,647
State's covered payroll	\$ 679,351	\$ 644,463	\$ 627,595	\$ 620,754	\$ 612,081	\$ 594,466	\$ 581,589
State's proportionate share of the net pension liability as a percentage of its covered payroll	301.0 %	315.3 %	320.8 %	324.0 %	308.3 %	297.3 %	272.6 %
Plan fiduciary net position as a percentage of the total pension liability	52.6 %	52.8 %	52.5 %	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**  
**Required Supplementary Information - Pension Information**  
**Schedule of State's Proportionate Share**  
**of the Net Pension Liability**  
**Last Seven Fiscal Years**  
**(Expressed in Thousands)**

**Employees' Retirement System-State Employees - Business-Type Activities**

*Rhode Island Lottery*

Year Ended	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Lottery's proportion of the net pension liability	1.0 %	0.9 %	0.8 %	0.7 %	0.8 %	0.8 %	0.7 %
Lottery's proportionate share of the net pension liability	\$ 21,652	\$ 20,850	\$ 17,142	\$ 16,869	\$ 16,260	\$ 15,074	\$ 13,315
Lottery's covered payroll	\$ 7,199	\$ 6,613	\$ 5,311	\$ 5,186	\$ 5,156	\$ 5,071	\$ 4,891
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	300.8 %	315.3 %	322.8 %	325.3 %	315.4 %	297.3 %	272.2 %
Plan fiduciary net position as a percentage of the total pension liability	52.6 %	52.8 %	52.5 %	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**  
**Required Supplementary Information - Pension Information**  
**Schedule of the State's Proportionate Share**  
**of the Net Pension Liability**  
**Last Seven Fiscal Years**  
**(Expressed in Thousands)**

**Employees' Retirement System-State Share-Teachers (Special Funding Situation)**

Year Ended	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
State's proportion of the net pension liability	42.6 %	42.8 %	42.7 %	43.1 %	40.7 %	40.6 %	40.7 %
State's proportionate share of the net pension liability	\$ 1,361,982	\$ 1,366,538	\$ 1,357,444	\$ 1,357,577	\$ 1,212,754	\$ 1,117,395	\$ 990,129
Plan fiduciary net position as a percentage of the total pension liability	54.3 %	54.6 %	54.3 %	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**  
**Required Supplementary Information - Pension Information**  
**Schedule of State Contributions**  
**Last Seven Fiscal Years**  
**(Expressed in Thousands)**

**Employees' Retirement System-State Employees-Governmental Activities**

	2021	2020	2019*	2018	2017	2016	2015
Actuarially determined contribution	\$ 184,004	\$ 179,281	\$ 169,365	\$ 156,083	\$ 157,299	\$ 144,696	\$ 138,689
Contributions in relation to the actuarially determined contribution	\$ 184,004	\$ 179,281	\$ 169,365	\$ 156,083	\$ 157,299	\$ 144,696	\$ 138,689
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 668,135	\$ 679,351	\$ 644,463	\$ 627,595	\$ 620,754	\$ 612,081	\$ 594,466
Contributions as a percentage of covered payroll	27.54 %	26.39 %	26.28 %	24.87 %	25.34 %	23.64 %	23.33 %

\* The 2019 contributions as a percentage of covered payroll includes the actuarially determined contribution rate of 25.75% and an additional contribution of .53% representing an elective contribution by the State to offset the impact of a voluntary retirement incentive offered to State employees in 2017.

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**  
**Required Supplementary Information - Pension Information**  
**Schedule of State Contributions**  
**Last Seven Fiscal Years**  
**(Expressed in Thousands)**

**Employees' Retirement System-State Employees - Business-Type Activities**

*Rhode Island Lottery*

	2021	2020	2019*	2018	2017	2016	2015
Actuarially determined contribution	\$ 1,900	\$ 1,900	\$ 1,738	\$ 1,321	\$ 1,314	\$ 1,219	\$ 1,183
Contributions in relation to the actuarially determined contribution	\$ 1,900	\$ 1,900	\$ 1,738	\$ 1,321	\$ 1,314	\$ 1,219	\$ 1,183
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 6,899	\$ 7,199	\$ 6,613	\$ 5,311	\$ 5,186	\$ 5,156	\$ 5,071
Contributions as a percentage of covered payroll	27.54 %	26.39 %	26.28 %	24.87 %	25.34 %	23.64 %	23.33 %

\* The 2019 contributions as a percentage of covered payroll includes the actuarially determined contribution rate of 25.75% and an additional contribution of .53% representing and elective contribution by the State to offset the impact of a voluntary retirement incentive offered to State employees in 2017.

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**  
**Required Supplementary Information - Pension Information**  
**Schedule of State Contributions**  
**Last Seven Fiscal Years**  
**(Expressed in Thousands)**

**Employees' Retirement System-State Share-Teachers (Special Funding Situation)**

	2021	2020	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 112,623	\$ 108,636	\$ 102,239	\$ 98,121	\$ 96,542	\$ 87,998	\$ 84,944
Contributions in relation to the statutorily required contribution	112,623	108,636	102,239	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**  
**Required Supplementary Information - 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 2021 reflect a June 30, 2020 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 18 to the financial statements contains detailed information concerning pension plans.

See Notes to Required Supplementary Information.



**State of Rhode Island**  
**Required Supplementary Information - Pension Information**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Last Seven Fiscal Years**  
**(Expressed in Thousands)**

**State Police Retirement Benefits Trust**

Year Ended	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
<b>Total Pension Liability</b>							
Service cost	\$ 5,788	\$ 5,342	\$ 4,999	\$ 4,498	\$ 4,316	\$ 4,198	\$ 5,122
Interest	12,405	11,590	10,763	9,393	9,058	8,540	7,768
Benefit Changes	—	—	—	—	—	1,170	—
Differences between expected and actual experience	(3,126)	624	1,912	10,694	(4,139)	(3,522)	—
Changes of assumptions	1,541	—	—	9,274	—	—	(364)
Benefit payments	(6,229)	(6,047)	(6,024)	(5,142)	(4,585)	(2,497)	(1,767)
<b>Net Change in Total Pension Liability</b>	<b>10,379</b>	<b>11,509</b>	<b>11,650</b>	<b>28,717</b>	<b>4,650</b>	<b>7,889</b>	<b>10,759</b>
<b>Total Pension Liability-Beginning</b>	<b>177,433</b>	<b>165,924</b>	<b>154,274</b>	<b>125,557</b>	<b>120,907</b>	<b>113,018</b>	<b>102,259</b>
<b>Total Pension Liability-Ending</b>	<b>\$ 187,812</b>	<b>\$ 177,433</b>	<b>\$ 165,924</b>	<b>\$ 154,274</b>	<b>\$ 125,557</b>	<b>\$ 120,907</b>	<b>\$ 113,018</b>
<b>Plan Fiduciary Net Position</b>							
Employer contributions	\$ 4,878	\$ 3,567	\$ 2,797	\$ 2,980	\$ 4,005	\$ 3,432	\$ 3,331
Employee contributions	2,346	2,130	1,994	2,060	2,035	1,732	2,034
Net investment income	5,642	9,161	10,298	13,694	58	2,656	14,124
Benefit payments	(6,229)	(6,047)	(6,024)	(5,142)	(4,585)	(2,497)	(1,767)
Administrative expenses	(158)	(140)	(137)	(125)	(103)	(100)	(83)
Other	25	1	16	5	1	4	5
<b>Net Change in Plan Fiduciary Net Position</b>	<b>\$ 6,504</b>	<b>\$ 8,672</b>	<b>\$ 8,944</b>	<b>\$ 13,472</b>	<b>\$ 1,411</b>	<b>\$ 5,227</b>	<b>\$ 17,644</b>
<b>Plan Fiduciary Net Position-Beginning</b>	<b>147,405</b>	<b>138,733</b>	<b>129,789</b>	<b>116,317</b>	<b>114,906</b>	<b>109,679</b>	<b>92,035</b>
<b>Plan Fiduciary Net Position-Ending</b>	<b>\$ 153,909</b>	<b>\$ 147,405</b>	<b>\$ 138,733</b>	<b>\$ 129,789</b>	<b>\$ 116,317</b>	<b>\$ 114,906</b>	<b>\$ 109,679</b>
<b>Net Pension Liability</b>	<b>\$ 33,903</b>	<b>\$ 30,028</b>	<b>\$ 27,191</b>	<b>\$ 24,485</b>	<b>\$ 9,240</b>	<b>\$ 6,001</b>	<b>\$ 3,339</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total</b>							
<b>Pension Liability</b>	81.9 %	83.1 %	83.6 %	84.1 %	92.6 %	95.0 %	97.0 %
<b>Covered Payroll</b>	\$ 26,419	\$ 24,216	\$ 22,590	\$ 22,728	\$ 20,985	\$ 19,701	\$ 23,051
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	128.3 %	124.0 %	120.4 %	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**  
**Required Supplementary Information - Pension Information**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Last Seven Fiscal Years**  
**(Expressed in Thousands)**

**Judicial Retirement Benefits Trust**

Year Ended	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
<b>Total Pension Liability</b>							
Service cost	\$ 3,335	\$ 3,184	\$ 3,215	\$ 3,001	\$ 2,859	\$ 3,024	\$ 3,002
Interest	5,663	5,526	5,303	5,031	4,744	4,540	4,134
Benefit Changes	—	—	—	—	—	253	—
Differences between expected and actual experience	180	(3,165)	(2,032)	(1,788)	(1,206)	(2,857)	—
Changes of assumptions	2,515	—	—	5,173	—	—	(672)
Benefit payments	(3,724)	(3,609)	(2,956)	(2,740)	(2,531)	(1,809)	(1,631)
<b>Net Change in Total Pension Liability</b>	<b>7,969</b>	<b>1,936</b>	<b>3,530</b>	<b>8,677</b>	<b>3,866</b>	<b>3,151</b>	<b>4,833</b>
<b>Total Pension Liability-Beginning</b>	<b>81,093</b>	<b>79,158</b>	<b>75,628</b>	<b>66,951</b>	<b>63,085</b>	<b>59,934</b>	<b>55,101</b>
<b>Total Pension Liability-Ending</b>	<b>\$ 89,062</b>	<b>\$ 81,094</b>	<b>\$ 79,158</b>	<b>\$ 75,628</b>	<b>\$ 66,951</b>	<b>\$ 63,085</b>	<b>\$ 59,934</b>
<b>Plan Fiduciary Net Position</b>							
Employer contributions	\$ 2,189	\$ 1,922	\$ 2,058	\$ 2,057	\$ 2,410	\$ 2,709	\$ 2,543
Employee contributions	1,204	1,109	1,142	1,118	1,053	1,121	1,093
Net investment income	2,955	4,821	5,377	7,107	29	1,368	7,221
Benefit payments	(3,724)	(3,609)	(2,956)	(2,740)	(2,531)	(1,809)	(1,631)
Administrative expenses	(80)	(74)	(71)	(65)	(53)	(51)	(43)
Other	—	—	—	—	—	—	—
<b>Net Change in Plan Fiduciary Net Position</b>	<b>\$ 2,544</b>	<b>\$ 4,169</b>	<b>\$ 5,550</b>	<b>\$ 7,477</b>	<b>\$ 908</b>	<b>\$ 3,338</b>	<b>\$ 9,183</b>
<b>Plan Fiduciary Net Position-Beginning</b>	<b>77,614</b>	<b>73,445</b>	<b>67,895</b>	<b>60,418</b>	<b>59,510</b>	<b>56,172</b>	<b>46,989</b>
<b>Plan Fiduciary Net Position-Ending</b>	<b>\$ 80,158</b>	<b>\$ 77,614</b>	<b>\$ 73,445</b>	<b>\$ 67,895</b>	<b>\$ 60,418</b>	<b>\$ 59,510</b>	<b>\$ 56,172</b>
<b>Net Pension Liability</b>	<b>\$ 8,904</b>	<b>\$ 3,480</b>	<b>\$ 5,713</b>	<b>\$ 7,733</b>	<b>\$ 6,533</b>	<b>\$ 3,575</b>	<b>\$ 3,762</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total</b>							
<b>Pension Liability</b>	90.0 %	95.7 %	92.8 %	89.8 %	90.2 %	94.3 %	93.7 %
<b>Covered Payroll</b>	\$ 10,284	\$ 9,474	\$ 9,653	\$ 9,532	\$ 8,981	\$ 9,570	\$ 9,314
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	86.6 %	36.7 %	59.2 %	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**  
**Required Supplementary Information - Pension Information**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Last Seven Fiscal Years**  
**(Expressed in Thousands)**

**Rhode Island Judicial Retirement Fund Trust**

Year Ended	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
<b>Total Pension Liability</b>							
Service cost	\$ 323	\$ 277	\$ 294	\$ 350	\$ 466	\$ 416	\$ 498
Interest	640	685	726	586	719	673	710
Benefit Changes	—	—	—	—	—	—	—
Differences between expected and actual experience	(646)	—	(1,953)	—	(1,060)	(642)	1,617
Changes of assumptions	2,060	917	(116)	(666)	1,865	859	(1,160)
Benefit payments	(399)	(399)	(399)	(399)	(231)	—	—
<b>Net Change in Total Pension Liability</b>	<b>1,978</b>	<b>1,480</b>	<b>(1,448)</b>	<b>(129)</b>	<b>1,759</b>	<b>1,306</b>	<b>1,665</b>
<b>Total Pension Liability-Beginning</b>	<b>20,474</b>	<b>18,994</b>	<b>20,442</b>	<b>20,571</b>	<b>18,812</b>	<b>17,506</b>	<b>15,841</b>
<b>Total Pension Liability-Ending</b>	<b>\$ 22,452</b>	<b>\$ 20,474</b>	<b>\$ 18,994</b>	<b>\$ 20,442</b>	<b>\$ 20,571</b>	<b>\$ 18,812</b>	<b>\$ 17,506</b>
<b>Plan Fiduciary Net Position</b>							
Employer contributions	\$ 399	\$ 399	\$ 399	\$ 332	\$ 140	\$ —	\$ —
Employee contributions	126	122	117	117	135	159	153
Net investment income	23	38	44	64	4	9	12
Benefit payments	(399)	(399)	(399)	(399)	(231)	—	—
Administrative expenses	(1)	(1)	(1)	(1)	—	—	—
Other	—	—	—	—	—	—	—
<b>Net Change in Plan Fiduciary Net Position</b>	<b>\$ 148</b>	<b>\$ 159</b>	<b>\$ 160</b>	<b>\$ 113</b>	<b>\$ 48</b>	<b>\$ 168</b>	<b>\$ 165</b>
<b>Plan Fiduciary Net Position-Beginning</b>	<b>966</b>	<b>807</b>	<b>647</b>	<b>534</b>	<b>486</b>	<b>318</b>	<b>153</b>
<b>Plan Fiduciary Net Position-Ending</b>	<b>\$ 1,114</b>	<b>\$ 966</b>	<b>\$ 807</b>	<b>\$ 647</b>	<b>\$ 534</b>	<b>\$ 486</b>	<b>\$ 318</b>
<b>Net Pension Liability</b>	<b>\$ 21,338</b>	<b>\$ 19,508</b>	<b>\$ 18,187</b>	<b>\$ 19,795</b>	<b>\$ 20,037</b>	<b>\$ 18,326</b>	<b>\$ 17,188</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total</b>							
<b>Pension Liability</b>	5.0 %	4.7 %	4.2 %	3.2 %	2.5 %	2.6 %	1.8 %
<b>Covered Payroll</b>	\$ 1,046	\$ 1,002	\$ 1,020	\$ 988	\$ 963	\$ 1,321	\$ 1,276
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	2040.0 %	1946.9 %	1783.0 %	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**  
**Required Supplementary Information - Pension Information**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Last Four Fiscal Years**  
**(Expressed in Thousands)**

**State Police Retirement Fund Trust**

Year Ended	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
<b>Total Pension Liability</b>				
Service cost	\$ —	\$ —	\$ —	\$ —
Interest	11,878	12,193	11,712	12,589
Benefit Changes	—	—	—	—
Differences between expected and actual experience	(162)	—	12,187	—
Changes of assumptions	(1,136)	—	—	4,214
Benefit payments	(16,581)	(16,799)	(17,273)	(17,392)
<b>Net Change in Total Pension Liability</b>	<b>(6,001)</b>	<b>(4,606)</b>	<b>6,626</b>	<b>(589)</b>
<b>Total Pension Liability-Beginning</b>	<b>177,977</b>	<b>182,583</b>	<b>175,957</b>	<b>176,546</b>
<b>Total Pension Liability-Ending</b>	<b>\$ 171,976</b>	<b>\$ 177,977</b>	<b>\$ 182,583</b>	<b>\$ 175,957</b>
<b>Plan Fiduciary Net Position</b>				
Employer contributions	\$ 16,387	\$ 16,387	\$ 16,387	\$ 31,566
Employee contributions	—	—	—	—
Net investment income	868	770	1,137	1,839
Benefit payments	(16,581)	(16,799)	(17,273)	(17,392)
Administrative expenses	(17)	(17)	(6)	—
Other	—	—	—	—
<b>Net Change in Plan Fiduciary Net Position</b>	<b>\$ 657</b>	<b>\$ 341</b>	<b>\$ 245</b>	<b>\$ 16,013</b>
<b>Plan Fiduciary Net Position-Beginning</b>	<b>16,599</b>	<b>16,258</b>	<b>16,013</b>	<b>—</b>
<b>Plan Fiduciary Net Position-Ending</b>	<b>\$ 17,256</b>	<b>\$ 16,599</b>	<b>\$ 16,258</b>	<b>\$ 16,013</b>
<b>Net Pension Liability</b>	<b>\$ 154,720</b>	<b>\$ 161,378</b>	<b>\$ 166,325</b>	<b>\$ 159,944</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total</b>				
<b>Pension Liability</b>	10.0 %	9.3 %	8.9 %	9.1 %
<b>Covered Payroll</b>	\$ —	\$ —	\$ —	\$ —
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	— %	— %	— %	— %

*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 are only four years of activity to report as the Trust began operations in fiscal 2018.*

See Notes to Required Supplementary Information.

**State of Rhode Island**  
**Required Supplementary Information - Pension Information**  
**Schedule of State Contributions**  
**Last Seven Fiscal Years Ended June 30**  
**(Expressed in Thousands)**

**State Police Retirement Benefits Trust**

	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 5,241	\$ 4,878	\$ 3,567	\$ 2,802	\$ 2,980	\$ 4,005	\$ 3,432
Contributions in relation to the actuarially determined contribution	5,241	4,878	3,567	2,802	2,980	4,005	\$ 3,432
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 26,442	\$ 26,394	\$ 24,199	\$ 22,930	\$ 22,191	\$ 23,258	\$ 19,907
Contributions as a percentage of covered payroll	19.82 %	18.48 %	14.74 %	12.22 %	13.43 %	17.22 %	17.24 %

*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**  
**Required Supplementary Information - Pension Information**  
**Schedule of State Contributions**  
**Last Seven Fiscal Years Ended June 30**  
**(Expressed in Thousands)**

**Judicial Retirement Benefits Trust**

	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 2,246	\$ 2,189	\$ 1,922	\$ 2,064	\$ 2,057	\$ 2,410	\$ 2,709
Contributions in relation to the actuarially determined contribution	2,246	\$ 2,189	1,922	2,064	2,057	2,410	\$ 2,709
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 10,393	\$ 10,278	\$ 9,477	\$ 9,768	\$ 9,532	\$ 8,993	\$ 9,566
Contributions as a percentage of covered payroll	21.61 %	21.30 %	20.28 %	21.13 %	21.58 %	26.80 %	28.32 %

*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**  
**Required Supplementary Information - Pension Information**  
**Schedule of State Contributions**  
**Last Seven Fiscal Years Ended June 30**  
**(Expressed in Thousands)**

**Rhode Island Judicial Retirement Fund Trust**

	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 1,242	\$ 1,215	\$ 1,224	\$ 1,322	\$ 1,241	\$ 1,200	\$ 1,623
Contributions in relation to the actuarially determined contribution	399	399	399	399	332	140	—
Contribution deficiency (excess)	<u>\$ 843</u>	<u>\$ 816</u>	<u>\$ 825</u>	<u>\$ 923</u>	<u>\$ 909</u>	<u>\$ 1,060</u>	<u>\$ 1,623</u>
Covered payroll	\$ 1,046	\$ 1,046	\$ 1,002	\$ 1,020	\$ 988	\$ 964	\$ 1,321
Contributions as a percentage of covered payroll	38.15 %	38.15 %	39.82 %	39.12 %	33.60 %	14.52 %	— %

*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**  
**Required Supplementary Information - Pension Information**  
**Schedule of State Contributions**  
**Last Four Fiscal Years Ended June 30**  
**(Expressed in Thousands)**

**State Police Retirement Fund Trust**

	2021	2020	2019	2018
Actuarially determined contribution	\$ 16,387	\$ 16,387	\$ 16,387	\$ 16,387
Contributions in relation to the actuarially determined contribution	16,387	16,387	16,387	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 are only four years of activity to report as the Trust began operations in fiscal 2018.*

See Notes to Required Supplementary Information.



**State of Rhode Island**  
**Required Supplementary Information - 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 2021 reflects a June 30, 2020 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 18 to the financial statements contains detailed information concerning pension plans.

See Notes to Required Supplementary Information.

State of Rhode Island  
Required Supplementary Information - Pension Information  
Schedule of Changes in Total Pension Liability  
Last Seven Fiscal Years  
(Expressed in Thousands)

Judicial Non-Contributory Retirement Plan

Year Ended	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
<b>Total Pension Liability</b>							
Service cost	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Interest	1,170	1,413	1,497	1,380	1,860	2,172	2,334
Benefit changes	—	—	—	—	—	—	—
Differences between expected and actual experience	3,560	521	916	182	—	328	—
Changes of assumptions	6,757	1,250	(166)	(2,291)	3,510	1,885	—
Benefit payments	(4,659)	(5,029)	(5,486)	(5,763)	(6,107)	(6,020)	(6,173)
<b>Net Change in Total Pension Liability</b>	<b>6,828</b>	<b>(1,845)</b>	<b>(3,239)</b>	<b>(6,492)</b>	<b>(737)</b>	<b>(1,635)</b>	<b>(3,839)</b>
<b>Total Pension Liability-Beginning</b>	<b>39,705</b>	<b>41,550</b>	<b>44,789</b>	<b>51,281</b>	<b>52,018</b>	<b>53,653</b>	<b>57,492</b>
<b>Total Pension Liability-Ending</b>	<b>\$ 46,533</b>	<b>\$ 39,705</b>	<b>\$ 41,550</b>	<b>\$ 44,789</b>	<b>\$ 51,281</b>	<b>\$ 52,018</b>	<b>\$ 53,653</b>

*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

Generally, 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 2021 were determined based on valuations performed as of June 30, 2018, with the exception of the RIJRFT contribution which was determined based on a valuation performed as of June 30, 2020. Significant methods and assumptions are summarized for each plan in the table below:

	ERS		SPRBT	JRBT	RIJRFT	SPRFT
	State Employees	Teachers				
<b>Actuarial Cost Method</b>	Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used.					
<b>Amortization Method</b>	Level Percent of Payroll - Closed				Level Dollar	Level Dollar
<b>Equivalent single remaining amortization period</b>	18 years	20 years	20 years	20 years	20 years	18 years
<b>Asset valuation method</b>	5 year smoothed market				Fair Value	Fair Value
<b>Amortization period for new gains and losses</b>	20 years				N/A	N/A
<b>Actuarial Assumptions</b>						
<b>Investment Rate of Return</b>	7.0%				2.45%	7.00%
<b>Projected Salary Increases</b>	3.25% to 6.25%	3.0% to 13.0%	3.75% to 11.75%	3.00%	3.00%	N/A
<b>Mortality</b>	<p>Male Employees: RP-2014 Combined Healthy for Males with Blue Collar adjustments, projected with Scale Ultimate MP16.</p> <p>Female Employees: RP-2014 Combined Healthy for Females, projected with Scale Ultimate MP16.</p> <p>Male Teachers: RP-2014 Combined Healthy for Males with White Collar adjustments, projected with Scale Ultimate MP16.</p> <p>Female Teachers: RP-2014 Combined Healthy for Females with White Collar adjustments, projected with Scale Ultimate MP16.</p>					
<b>Inflation</b>	2.5%					

The required contribution for the State Police Retirement Fund Trust (SPRFT), a plan newly created in fiscal 2017 covering a closed group of retired individuals, was calculated based on a level-dollar amortization over 18 years from June 30, 2016. Upon statutory creation of the RISPRFT, an annual contribution amount totaling \$16.4 million was actuarially determined. This amount has been contributed annually since 2017.

#### Cost of Living Adjustments

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 and the second such COLA will be applicable in Calendar Year 2021. 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 3.0%.

### **Factors affecting trends for amounts related to the net pension liability**

#### ***June 30, 2020 measurement date:***

As part of the 2020 Actuarial Experience Study for the six-year period ending June 30, 2019 as approved by the System Board on May 22, 2020, certain assumptions were modified and reflected in the determination of net pension liability (asset) at the June 30, 2020 measurement date. The following summarizes the more significant changes in assumptions:

- Separated Correctional Officers from State Employees for all assumptions.
- Updated the underlying mortality tables from the RP-2014 set of tables to the public sector-based PUB (10) tables.
- Increased slightly the probabilities of turnover.
- Decreased slightly the probabilities of retirement.
- Modified slightly the probabilities of disability, including adding material incidence of disability for members in the age ranges that historically have been eligible to retire but under prospective provisions are not.
- Lowered wage assumptions for Judges from 3.00% to 2.75%.

The RIJRFT and JNCRP plans used the municipal bond index rate of 2.45% instead of the plan's assumed investment rate of return of 3.13%.

#### ***June 30, 2019 measurement date:***

The RIJRFT and JNCRP plans used the municipal bond index rate of 3.13% as of June 30, 2019. This rate was 3.62% at June 30, 2018. Also, there was a decrease in certain salary increase assumptions used as of June 30, 2019 as compared to June 30, 2018.

#### ***June 30, 2018 measurement date:***

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability (asset) of the plans as of the June 30, 2018 measurement date compared to the June 30, 2017 measurement date except for the changes in assumptions for the RIJRFT and JNCRP plans due to use of the municipal bond index rate of 3.62% as of June 30, 2018. This rate was 3.56% at June 30, 2017.

#### ***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 was recorded in fiscal 2018 and was 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 - 5.5%, 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**  
**Required Supplementary Information - 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 2021 reflect a June 30, 2020 measurement date.

Additional information for 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 19 to the financial statements contains detailed information concerning OPEB plans.*

See Notes to Required Supplementary Information.

**State of Rhode Island**  
**Required Supplementary Information - OPEB Information**  
**Schedule of State's Proportionate Share**  
**of the Net OPEB Liability**  
**Last Four Fiscal Years**  
**(Expressed in Thousands)**

**State Employees-Governmental Activities**

Year Ended	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
State's proportion of the net OPEB liability	89.9 %	89.6 %	89.4 %	89.2 %
State's proportionate share of the net OPEB liability	\$ 324,502	\$ 391,135	\$ 455,475	\$ 463,597
State's covered payroll	\$ 681,554	\$ 657,222	\$ 633,562	\$ 632,672
State's proportionate share of the net OPEB liability as a percentage of its covered payroll	47.6 %	59.5 %	71.9 %	73.3 %
Plan fiduciary net position as a percentage of the total OPEB liability	42.5 %	33.6 %	26.3 %	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**  
**Required Supplementary Information - OPEB Information**  
**Schedule of State's Proportionate Share**  
**of the Net OPEB Liability**  
**Last Four Fiscal Years**  
**(Expressed in Thousands)**

**State Employees-Business-Type Activities**

Year Ended	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
<i>Rhode Island Lottery</i>				
Lottery's proportion of the net OPEB liability	0.9 %	0.9 %	0.8 %	0.7 %
Lottery's proportionate share of the net OPEB liability	\$ 3,420	\$ 3,990	\$ 3,876	\$ 3,864
Lottery's covered payroll	\$ 7,182	\$ 6,705	\$ 5,308	\$ 5,186
Lottery's proportionate share of the net OPEB liability as a percentage of its covered payroll	47.6 %	59.5 %	73.0 %	74.5 %
Plan fiduciary net position as a percentage of the total OPEB liability	42.5 %	33.6 %	26.3 %	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**  
**Required Supplementary Information - OPEB Information**  
**Schedule of State's Proportionate Share**  
**of the Board of Education Plan Net OPEB Liability**  
**Last Four Fiscal Years**  
**(Expressed in Thousands)**

**State's Share of Board of Education Plan**

Year Ended	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
State's proportion of the net OPEB liability	0.2 %	0.2 %	0.2 %	0.2 %
State's proportionate share of the net OPEB liability	\$ 89	\$ 80	\$ 87	\$ 111
State's covered payroll	\$ 335	\$ 276	\$ 411	\$ 264
State's proportionate share of the net OPEB liability as a percentage of its covered payroll	26.6 %	29.0 %	21.2 %	42.0 %
Plan fiduciary net position as a percentage of the total OPEB liability	57.3 %	51.6 %	38.6 %	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**  
**Required Supplementary Information - OPEB Information**  
**Schedule of State Contributions**  
**Last Four Fiscal Years Ended June 30**  
**(Expressed in Thousands)**

**State Employees-Governmental Activities**

	2021	2020	2019	2018
Actuarially determined contribution	\$ 36,998	\$ 45,323	\$ 39,302	\$ 37,887
Contributions in relation to the actuarially determined contribution	36,998	45,323	39,302	\$ 37,887
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 673,924	\$ 681,554	\$ 657,222	\$ 633,562
Contributions as a percentage of covered payroll	5.49 %	6.65 %	5.98 %	5.98 %

*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**  
**Required Supplementary Information - OPEB Information**  
**Schedule of State Contributions**  
**Last Four Fiscal Years Ended June 30**  
**(Expressed in Thousands)**

**State Employees-Business-Type Activities**

*Rhode Island Lottery*

	2021	2020	2019	2018
Actuarially determined contribution	\$ 379	\$ 478	\$ 401	\$ 317
Contributions in relation to the actuarially determined contribution	379	478	401	\$ 317
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 6,911	\$ 7,182	\$ 6,705	\$ 5,308
Contributions as a percentage of covered payroll	5.49 %	6.65 %	5.98 %	5.98 %

*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**  
**Required Supplementary Information - OPEB Information**  
**Schedule of State Contributions to Board of Education Plan**  
**Last Four Fiscal Years Ended June 30**  
**(Expressed in Thousands)**

**State's Share of Board of Education Plan**

	2021	2020	2019	2018
Actuarially determined contribution	\$ 12	\$ 14	\$ 12	\$ 18
Contributions in relation to the actuarially determined contribution	12	14	12	\$ 18
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 417	\$ 335	\$ 276	\$ 411
Contributions as a percentage of covered payroll	2.93 %	4.08 %	4.36 %	4.36 %

*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**  
**Required Supplementary Information - 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 2021 reflect a June 30, 2020 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 19 to the financial statements contains detailed information concerning OPEB plans.*

See Notes to Required Supplementary Information.

**State of Rhode Island**  
**Required Supplementary Information - OPEB Information**  
**Schedule of Changes in Net OPEB Liability (Asset) and Related Ratios**  
**Last Four Fiscal Years**  
**(Expressed in Thousands)**

**Teachers Plan**

<b>Year Ended</b>	<b>June 30, 2021</b>	<b>June 30, 2020</b>	<b>June 30, 2019</b>	<b>June 30, 2018</b>
<b>Measurement Date</b>	<b>June 30, 2020</b>	<b>June 30, 2019</b>	<b>June 30, 2018</b>	<b>June 30, 2017</b>
<b>Total OPEB Liability</b>				
Service cost	\$ —	\$ —	\$ —	\$ —
Interest	556	581	612	562
Benefit Changes	—	(1,952)	—	—
Differences between expected and actual experience	(1,212)	1,954	91	1,625
Changes of assumptions	(164)	(45)	—	217
Benefit payments	(629)	(1,438)	(1,202)	(1,610)
<b>Net Change in Total OPEB Liability</b>	<b>(1,449)</b>	<b>(900)</b>	<b>(499)</b>	<b>794</b>
<b>Total OPEB Liability-Beginning</b>	<b>11,433</b>	<b>12,333</b>	<b>12,832</b>	<b>12,038</b>
<b>Total OPEB Liability-Ending</b>	<b>\$ 9,984</b>	<b>\$ 11,433</b>	<b>\$ 12,333</b>	<b>\$ 12,832</b>
<b>Plan Fiduciary Net Position</b>				
Employer contributions	\$ —	\$ 2,277	\$ 2,321	\$ 2,321
Net investment income	1,082	1,101	780	864
Benefit payments	(629)	(1,438)	(1,202)	(1,610)
Administrative expenses	(24)	(2)	(17)	7
Other	150	117	136	103
<b>Net Change in Plan Fiduciary Net Position</b>	<b>\$ 579</b>	<b>\$ 2,055</b>	<b>\$ 2,018</b>	<b>\$ 1,685</b>
<b>Plan Fiduciary Net Position-Beginning</b>	<b>13,850</b>	<b>11,795</b>	<b>9,777</b>	<b>8,092</b>
<b>Plan Fiduciary Net Position-Ending</b>	<b>\$ 14,429</b>	<b>\$ 13,850</b>	<b>\$ 11,795</b>	<b>\$ 9,777</b>
<b>Net OPEB Liability (Asset)</b>	<b>\$ (4,445)</b>	<b>\$ (2,417)</b>	<b>\$ 538</b>	<b>\$ 3,055</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability</b>	<b>144.5 %</b>	<b>121.1 %</b>	<b>95.6 %</b>	<b>76.2 %</b>
<b>Covered Payroll</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Net OPEB Liability (Asset) as a Percentage of Covered Payroll</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>

*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**  
**Required Supplementary Information - OPEB Information**  
**Schedule of Changes in Net OPEB Liability (Asset) and Related Ratios**  
**Last Four Fiscal Years**  
**(Expressed in Thousands)**

**Judges Plan**

Year Ended	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
<b>Total OPEB Liability</b>				
Service cost	\$ 22	\$ 22	\$ 15	\$ 20
Interest	64	60	68	50
Benefit Changes	—	(42)	—	—
Differences between expected and actual experience	(960)	102	(271)	(306)
Changes of assumptions	(69)	(11)	—	503
Benefit payments	(18)	(54)	72	138
<b>Net Change in Total OPEB Liability</b>	<u>(961)</u>	<u>77</u>	<u>(116)</u>	<u>405</u>
<b>Total OPEB Liability-Beginning</b>	1,283	1,206	1,322	917
<b>Total OPEB Liability-Ending</b>	<u>\$ 322</u>	<u>\$ 1,283</u>	<u>\$ 1,206</u>	<u>\$ 1,322</u>
<b>Plan Fiduciary Net Position</b>				
Employer contributions	\$ —	\$ —	\$ —	\$ —
Net investment income	327	341	293	334
Benefit payments	(18)	(54)	72	138
Administrative expenses	(2)	—	(6)	—
Other	56	49	54	26
<b>Net Change in Plan Fiduciary Net Position</b>	<u>\$ 363</u>	<u>\$ 336</u>	<u>\$ 413</u>	<u>\$ 498</u>
<b>Plan Fiduciary Net Position-Beginning</b>	4,449	4,113	3,700	3,202
<b>Plan Fiduciary Net Position-Ending</b>	<u>\$ 4,812</u>	<u>\$ 4,449</u>	<u>\$ 4,113</u>	<u>\$ 3,700</u>
<b>Net OPEB Liability (Asset)</b>	<u>\$ (4,490)</u>	<u>\$ (3,166)</u>	<u>\$ (2,907)</u>	<u>\$ (2,378)</u>
<b>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability</b>	1494.3 %	346.8 %	341.0 %	279.9 %
<b>Covered Payroll</b>	\$ 11,636	\$ 11,297	\$ 10,746	\$ 10,746
<b>Net OPEB Liability (Asset) as a Percentage of Covered Payroll</b>	(38.6)%	(28.0)%	(27.1)%	(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**  
**Required Supplementary Information - OPEB Information**  
**Schedule of Changes in Net OPEB Liability and Related Ratios**  
**Last Four Fiscal Years**  
**(Expressed in Thousands)**

**State Police Plan**

<b>Year Ended</b>	<b>June 30, 2021</b>	<b>June 30, 2020</b>	<b>June 30, 2019</b>	<b>June 30, 2018</b>
<b>Measurement Date</b>	<b>June 30, 2020</b>	<b>June 30, 2019</b>	<b>June 30, 2018</b>	<b>June 30, 2017</b>
<b>Total OPEB Liability</b>				
Service cost	\$ 4,481	\$ 4,108	\$ 3,920	\$ 3,836
Interest	4,391	4,369	4,148	4,202
Benefit Changes	—	(4,790)	—	—
Differences between expected and actual experience	(2,230)	630	(907)	(174)
Changes of assumptions	(6,974)	(1,161)	—	(6,005)
Benefit payments	(3,009)	(2,801)	(2,849)	(3,130)
<b>Net Change in Total OPEB Liability</b>	<b>(3,341)</b>	<b>355</b>	<b>4,312</b>	<b>(1,271)</b>
<b>Total OPEB Liability-Beginning</b>	<b>87,090</b>	<b>86,735</b>	<b>82,423</b>	<b>83,694</b>
<b>Total OPEB Liability-Ending</b>	<b>\$ 83,749</b>	<b>\$ 87,090</b>	<b>\$ 86,735</b>	<b>\$ 82,423</b>
<b>Plan Fiduciary Net Position</b>				
Employer contributions	\$ 7,797	\$ 8,257	\$ 7,919	\$ 7,702
Net investment income	4,775	4,683	3,413	3,491
Benefit payments	(3,009)	(2,801)	(2,849)	(3,130)
Administrative expenses	(35)	(12)	(73)	(1)
Other	335	277	197	163
<b>Net Change in Plan Fiduciary Net Position</b>	<b>\$ 9,863</b>	<b>\$ 10,404</b>	<b>\$ 8,607</b>	<b>\$ 8,225</b>
<b>Plan Fiduciary Net Position-Beginning</b>	<b>56,548</b>	<b>46,144</b>	<b>37,537</b>	<b>29,312</b>
<b>Plan Fiduciary Net Position-Ending</b>	<b>\$ 66,411</b>	<b>\$ 56,548</b>	<b>\$ 46,144</b>	<b>\$ 37,537</b>
<b>Net OPEB Liability (Asset)</b>	<b>\$ 17,338</b>	<b>\$ 30,542</b>	<b>\$ 40,591</b>	<b>\$ 44,886</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability</b>	<b>79.3 %</b>	<b>64.9 %</b>	<b>53.2 %</b>	<b>45.5 %</b>
<b>Covered Payroll</b>	<b>\$ 24,661</b>	<b>\$ 23,943</b>	<b>\$ 21,334</b>	<b>\$ 21,334</b>
<b>Net OPEB Liability as a Percentage of Covered Payroll</b>	<b>70.3 %</b>	<b>127.6 %</b>	<b>190.3 %</b>	<b>210.4 %</b>

*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**  
**Required Supplementary Information - OPEB Information**  
**Schedule of Changes in Net OPEB Liability (Asset) and Related Ratios**  
**Last Four Fiscal Years**  
**(Expressed in Thousands)**

**Legislators Plan**

Year Ended	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
<b>Total OPEB Liability</b>				
Service cost	\$ 57	\$ 71	\$ 54	\$ 63
Interest	80	79	74	66
Benefit Changes	—	(257)	—	—
Differences between expected and actual experience	(83)	284	102	168
Changes of assumptions	(350)	(61)	—	(45)
Benefit payments	(85)	(98)	(161)	(36)
<b>Net Change in Total OPEB Liability</b>	<b>(381)</b>	<b>18</b>	<b>69</b>	<b>216</b>
<b>Total OPEB Liability-Beginning</b>	<b>1,612</b>	<b>1,594</b>	<b>1,525</b>	<b>1,309</b>
<b>Total OPEB Liability-Ending</b>	<b>\$ 1,231</b>	<b>\$ 1,612</b>	<b>\$ 1,594</b>	<b>\$ 1,525</b>
<b>Plan Fiduciary Net Position</b>				
Employer contributions	\$ —	\$ 15	\$ 14	\$ 27
Net investment income	263	276	247	283
Benefit payments	(85)	(98)	(161)	(36)
Administrative expenses	(2)	—	(4)	—
Other	79	32	42	29
<b>Net Change in Plan Fiduciary Net Position</b>	<b>\$ 255</b>	<b>\$ 225</b>	<b>\$ 138</b>	<b>\$ 303</b>
<b>Plan Fiduciary Net Position-Beginning</b>	<b>3,267</b>	<b>3,042</b>	<b>2,904</b>	<b>2,601</b>
<b>Plan Fiduciary Net Position-Ending</b>	<b>\$ 3,522</b>	<b>\$ 3,267</b>	<b>\$ 3,042</b>	<b>\$ 2,904</b>
<b>Net OPEB Liability (Asset)</b>	<b>\$ (2,291)</b>	<b>\$ (1,655)</b>	<b>\$ (1,448)</b>	<b>\$ (1,379)</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability</b>	<b>287.6 %</b>	<b>202.6 %</b>	<b>190.9 %</b>	<b>190.4 %</b>
<b>Covered Payroll</b>	<b>\$ 1,868</b>	<b>\$ 1,814</b>	<b>\$ 1,719</b>	<b>\$ 1,719</b>
<b>Net OPEB Liability (Asset) as a Percentage of Covered Payroll</b>	<b>(122.6)%</b>	<b>(91.2)%</b>	<b>(84.2)%</b>	<b>(80.2)%</b>

*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**  
**Required Supplementary Information - OPEB Information**  
**Schedule of State Contributions**  
**Last Four Fiscal Years Ended June 30**  
**(Expressed in Thousands)**

**Teachers Plan**

	2021*	2020*	2019	2018
Actuarially determined contribution	\$ —	\$ —	\$ 2,321	\$ 2,321
Contributions in relation to the actuarially determined contribution	—	—	2,277 **	2,321
Contribution deficiency (excess)	\$ —	\$ —	\$ 44	\$ —
Covered payroll	N/A	N/A	N/A	N/A
Contributions as a percentage of covered payroll	N/A	N/A	N/A	N/A

*\*An actuarial valuation determined that no contribution was required for this OPEB plan.*

*\*\* The contribution funded in Fiscal 2019 was the amount appropriated by the General Assembly.*

*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**  
**Required Supplementary Information - OPEB Information**  
**Schedule of State Contributions**  
**Last Four Fiscal Years Ended June 30**  
**(Expressed in Thousands)**

**Judges Plan**

	2021	2020	2019	2018
Actuarially determined contribution	\$ —	\$ —	\$ —	\$ —
Contributions in relation to the actuarially determined contribution	—	—	—	—
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 11,932	\$ 11,589	\$ 11,297	\$ 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**  
**Required Supplementary Information - OPEB Information**  
**Schedule of State Contributions**  
**Last Four Fiscal Years Ended June 30**  
**(Expressed in Thousands)**

**State Police Plan**

	2021	2020	2019	2018
Actuarially determined contribution	\$ 6,178	\$ 7,797	\$ 8,257	\$ 7,919
Contributions in relation to the actuarially determined contribution	6,178	7,797	8,257	7,919
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$26,505	\$26,297	\$23,666	\$22,698
Contributions as a percentage of covered payroll	23.3 %	29.7 %	34.9 %	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**  
**Required Supplementary Information - OPEB Information**  
**Schedule of State Contributions**  
**Last Four Fiscal Years Ended June 30**  
**(Expressed in Thousands)**

**Legislators Plan**

	2021*	2020*	2019	2018
Actuarially determined contribution	\$ —	\$ —	\$ 15	\$ 14
Contributions in relation to the actuarially determined contribution	—	—	15	14
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 1,897	\$ 1,856	\$ 1,812	\$ 1,728
Contributions as a percentage of covered payroll	— %	— %	0.8 %	0.8 %

\* 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.

## Required Supplementary Information - OPEB

## Significant Methods and Assumptions used in calculating the actuarially determined contributions

The actuarially determined contribution rates for fiscal 2021 were determined based on valuations performed as of June 30, 2018. Significant methods and assumptions are summarized for each plan in the table below:

	State Employees	Teachers	Judges	State Police	Legislators	Board of Education
<b>Actuarial Cost Method</b>	Individual Entry Age Normal					
<b>Amortization Method</b>	Level Percent of Pay	Level Dollar	Level Percent of Pay	Level Percent of Pay	Level Percent of Pay	Level Percent of Pay
<b>Remaining amortization period</b>	18 Years Closed	Determined by Statutory Contribution	30 Years Open	18 Years Closed	30 Years Open	18 Years Closed
<b>Asset valuation method</b>	4 Year smoothed market, 20% corridor					
<b>Actuarial Assumptions</b>						
<b>Investment Rate of Return</b>	5% per year, compounded annually, net of investment expenses					
<b>Projected Salary Increases</b>	3.0% to 6.0%	N/A	3.0%	4.0% to 14.0%	3.0% to 6.0%	3.0% to 6.0%
<b>Retirement Age</b>	Experience-based table of rates that are specific to the type of eligibility condition.					
<b>Mortality</b>	<b>Post-Retirement Mortality</b>					
	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.					
	<b>Disabled Mortality</b>					
Disabled Males: RP-2014 Disabled Retiree Table for males, projected with the MP 2016 ultimate rates.						
Disabled Females: RP-2014 Disabled Retiree Table for females, projected with the MP 2016 ultimate rates.						
<b>Pre-Retirement Mortality</b>						
The mortality tables used to project the pre-termination mortality experience of plan members are the RP-2014 Employee tables for males and females as the base table, and then to apply a 75% multiplier for Teachers, Judges, Legislators, and Board of Education and a 100% multiplier for State Employees and State Police.						
<b>Healthcare Cost Trend Rate</b>	Based on the Getzen Model, with trend starting at 8.25% and gradually decreasing to an ultimate trend rate of 3.5%.					
<b>Aging Factors</b>	The tables used in developing the retiree only premium are based on the 2013 SOA Study "Health Care Costs-From Birth to Death".					
<b>Inflation</b>	Not explicitly used, consistent with 2.50% assumption.					

**Factors affecting trends for amounts related to the net OPEB liability**

The actuarial methods and assumptions used to calculate the net OPEB liability of the participating employers are described in Note 19 to the financial statements. The following information is presented about factors that significantly affect trends in the amounts reported between years.

**June 30, 2020 measurement date:**

The “Cadillac tax”, which was a tax provision from the federal Affordable Care Act (ACA), was repealed in December 2019. As a result, liability amounts previously included for the “Cadillac tax” within the development of the total OPEB liability have been removed as of the June 30, 2020 measurement date.

**June 30, 2019 measurement date:**

The June 30, 2018 actuarial valuation rolled forward to the June 30, 2020 measurement date reflected a change in Excise Tax load on pre-65 liabilities from 11.0% to 9.5%. The healthcare cost trend rate used in determining the OPEB liability at June 30, 2019 measurement date decreased slightly from the previous measurement date.

**June 30, 2018 Measurement date:**

There were no changes in actuarial methods or assumptions reflected in the calculation of the net OPEB liability of the plan as of the June 30, 2018 measurement date compared to the June 30, 2017 measurement date.

**June 30, 2017 Measurement date:**

Certain actuarial assumptions for State Employees were updated to match the assumptions used for State Employees in the pension valuation for the Employees’ Retirement System of Rhode Island (ERSRI) and the results of an actuarial experience investigation performed for ERSRI at June 30, 2016. Changes were made to the following assumptions:

- Merit and longevity portion of the salary increase assumption
- Rates of separation from active membership
- Rates of retirement
- Rates of disability
- The rate of wage inflation
- The mortality assumption
- The trend assumption
- Aging factors and health and inflation trends

The excise tax load on pre-65 liabilities was changed from 13.8% to 11.0%. 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.

**Actuarially determined contributions**

Generally, actuarially determined contributions are calculated as of June 30, three years prior to the fiscal year in which the contribution rates are applicable. For example, the annual required contributions for fiscal 2021 were based on the actuarial valuation for the fiscal year ended June 30, 2018.

Schedule of Expenditures  
of Federal Awards





**Schedule of Expenditures of  
Federal Awards**

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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**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2021**

Federal Grantor Program Title	Assistance Listing Number	Additional Award Identification Number	Name of Pass-through Entity	Pass-through Entity Award Number	Federal Expenditures	Total Program or Cluster Expenditures	Passed Through to Subrecipients
<b>U.S. Department of Agriculture (USDA)</b>							
Agricultural Research Basic and Applied Research	10.001				\$	90,714	
Plant and Animal Disease, Pest Control, and Animal Care	10.025					299,446	\$ 37,697
Inspection Grading and Standardization	10.162					6,180	
Market Protection and Promotion	10.163					(7)	
Specialty Crop Block Grant Program - Farm Bill	10.170					162,311	95,671
Organic Certification Cost Share Programs	10.171					805	
Trade Mitigation Program Eligible Recipient Agency Operational Funds	10.178					89,022	89,000
Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers	10.443					7	
CACFP Meal Service Training Grants	10.534					21,106	
SNAP Fraud Framework Implementation Grant	10.535					104,407	
Pandemic EBT Food Benefits	10.542	COVID-19				50,374,577	
SNAP Cluster:							
Supplemental Nutrition Assistance Program	10.551				\$ 235,647,891		
Supplemental Nutrition Assistance Program	10.551	COVID-19			107,070,005		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561				<u>22,536,917</u>	365,254,813	1,054,004
Child Nutrition Cluster:							
School Breakfast Program	10.553				(494,365)		
School Breakfast Program (See Note 10)	10.553	COVID-19			646,751		133,215
National School Lunch Program (See Notes 4 and 9)	10.555				3,207,155		
National School Lunch Program (See Notes 4, 9 and 10)	10.555	COVID-19			1,854,299		309,345
Special Milk Program for Children	10.556				450		450
Special Milk Program for Children (See Note 10)	10.556	COVID-19			323		323
Summer Food Service Program for Children (See Notes 4 and 9)	10.559				33,837,014		32,304,768
Summer Food Service Program for Children (See Notes 4, 9 and 10)	10.559	COVID-19			10,255,447		9,423,211
Child Nutrition Discretionary Grants Limited Availability	10.579				<u>31,949</u>	49,339,023	31,949
WIC Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 5)	10.557					18,433,302	4,167,304
Child and Adult Care Food Program	10.558				7,120,245		7,056,288
Child and Adult Care Food Program	10.558	COVID-19			<u>2,134,135</u>	9,254,380	2,121,883
State Administrative Expenses for Child Nutrition	10.560					1,387,278	
Food Distribution Cluster:							
Commodity Supplemental Food Program	10.565				135,528		114,518
Emergency Food Assistance Program (Administrative Costs)	10.568				302,668		302,619
Emergency Food Assistance Program (Administrative Costs)	10.568	COVID-19			<u>81,550</u>	519,746	81,525
WIC Farmers' Market Nutrition Program (FMNP)	10.572					55,098	44,128
Team Nutrition Grants	10.574					104,343	
Farm to School Grant Program	10.575					28,627	
Senior Farmers Market Nutrition Program	10.576					30,946	
WIC Grants to States (WGS)	10.578					575,195	
Supplemental Nutrition Assistance Program, Process and Technology Improvement Grants	10.580					2,300	
Fresh Fruit and Vegetable Program	10.582					779,114	694,984
Pandemic EBT Administrative Costs	10.649	COVID-19				232,233	
Cooperative Forestry Assistance	10.664					521,345	106,578
Forest Legacy Program	10.676					32,159	
Environmental Quality Incentives Program	10.912					<u>6,365</u>	
<b>Total U.S. Department of Agriculture (USDA)</b>					<b>\$ 497,704,835</b>	<b>\$ 58,169,460</b>	
<b>U.S. Department of Commerce (DOC)</b>							
Economic Development Cluster:							
Investments for Public Works and Economic Development Facilities	11.300				\$ 1,186,959		
Economic Adjustment Assistance (See Note 3)	11.307				<u>9,297,155</u>	\$ 10,484,114	\$ 246,707
Interjurisdictional Fisheries Act of 1986	11.407					110,512	
Sea Grant Support	11.417					12,635	
Coastal Zone Management Administration Awards	11.419					1,327,122	14,490
Coastal Zone Management Estuarine Research Reserves	11.420					630,368	
Marine Fisheries Initiative	11.433					460,608	

**STATE OF RHODE ISLAND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Fiscal Year Ended June 30, 2021**

Federal Grantor Program Title	Assistance Listing Number	Additional Award Identification Number	Name of Pass-through Entity	Pass-through Entity Award Number	Federal Expenditures	Total Program or Cluster Expenditures	Passed Through to Subrecipients
Regional Fishery Management Councils	11.441					57,442	
Unallied Management Projects	11.454	COVID-19				15,322	
Unallied Science Program	11.472					16	
Office for Coastal Management	11.473					108,237	43,660
Atlantic Coastal Fisheries Cooperative Management Act	11.474					502,561	
State and Local Implementation Grant Program	11.549					386	
<b>Total U.S. Department of Commerce (DOC)</b>						<u>\$ 13,709,323</u>	<u>\$ 304,857</u>
<b>U.S. Department of Defense (DOD)</b>							
Procurement Technical Assistance for Business Firms	12.002					\$ 313,474	
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113					610,665	
National Guard Military Operations and Maintenance (O&M) Projects	12.401					19,050,324	\$ 159,433
GenCyber Grants Program	12.903					23,991	
<b>Total U.S. Department of Defense (DOD)</b>						<u>\$ 19,998,454</u>	<u>\$ 159,433</u>
<b>U.S. Department of Housing and Urban Development (HUD)</b>							
Mortgage Insurance Homes (See Note 3)	14.117					\$ 363,832,323	
Qualified Participating Entities (QPE) Risk Sharing (See Note 3)	14.189					276,569,509	
Section 8 Project-Based Cluster:							
Section 8 Housing Assistance Payments Program	14.195				\$ 192,830,060		
Section 8 Housing Assistance Payments Program	14.195	COVID-19			1,912,843		
Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	14.856				<u>614,861</u>	195,357,764	
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (See Note 3)	14.228				13,169,868		\$ 4,478,936
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (See Note 3)	14.228	COVID-19			<u>252,889</u>	13,422,757	186,893
Emergency Solutions Grant Program	14.231				683,799		651,047
Emergency Solutions Grant Program	14.231	COVID-19			<u>1,744,820</u>	2,428,619	1,662,663
Home Investment Partnerships Program (See Note 3)	14.239					27,464,544	
Housing Opportunities for Persons with AIDS	14.241				390,191		388,088
Housing Opportunities for Persons with AIDS	14.241	COVID-19			<u>141,692</u>	531,883	133,382
Continuum of Care Program	14.267					3,469,290	
CDBG - Disaster Recovery Grants - Pub. L. No. 113-2 Cluster:							
Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR)	14.269					87,942	1,700
Housing Trust Fund (See Note 3)	14.275					5,408,455	
Project Rental Assistance Demonstration (PRA Demo) Program of Section 811 Supportive Housing for Persons with Disabilities	14.326					190,075	
Fair Housing Assistance Program State and Local	14.401					251,228	
Housing Voucher Cluster:							
Section 8 Housing Choice Vouchers	14.871					18,157,887	
Family Self-Sufficiency Program	14.896					140,003	
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900					463,397	
<b>Total U.S. Department of Housing and Urban Development (HUD)</b>						<u>\$ 907,775,676</u>	<u>\$ 7,502,709</u>
<b>U.S. Department of the Interior (DOI)</b>							
Fish and Wildlife Cluster:							
Sport Fish Restoration	15.605				\$ 4,687,769		
Wildlife Restoration and Basic Hunter Education	15.611				<u>4,481,759</u>	\$ 9,169,528	
Fish and Wildlife Management Assistance	15.608					42,705	
Cooperative Endangered Species Conservation Fund	15.615					6,649	
Clean Vessel Act	15.616					67,573	48,164
Sportfishing and Boating Safety Act	15.622					(10)	
Coastal	15.630					28,459	2,361
State Wildlife Grants	15.634					478,147	
Endangered Species Recovery Implementation	15.657					2,830	
Hurricane Sandy Disaster Relief Activities-FWS	15.677					2,822	

**STATE OF RHODE ISLAND**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2021**

Federal Grantor Program Title	Assistance Listing Number	Additional Award Identification Number	Name of Pass-through Entity	Pass-through Entity Award Number	Federal Expenditures	Total Program or Cluster Expenditures	Passed Through to Subrecipients
Historic Preservation Fund Grants-In-Aid	15.904					585,246	32,000
Water Use and Data Research	15.981					28,109	
Block Island Wind Farm Monitoring Project	15.U01	140EO119003				164,946	
<b>Total U.S. Department of the Interior (DOI)</b>						<u>\$ 10,577,004</u>	<u>\$ 82,525</u>
<b>U.S. Department of Justice (DOJ)</b>							
Sexual Assault Services Formula Program	16.017					\$ 270,056	\$ 255,403
Coronavirus Emergency Supplemental Funding Program	16.034	COVID-19				3,068	
Juvenile Accountability Block Grants	16.523					55	
Juvenile Justice and Delinquency Prevention	16.540					161,838	18,297
Missing Children's Assistance	16.543					287,301	
State Justice Statistics Program for Statistical Analysis Centers	16.550					72,060	
National Criminal History Improvement Program (NCHIP)	16.554					369,180	
Crime Victim Assistance	16.575					8,764,415	7,765,241
Crime Victim Compensation	16.576					242,669	
Crime Victim Assistance/Discretionary Grants	16.582					60,566	50,081
Drug Court Discretionary Grant Program	16.585					375,014	
Violence Against Women Formula Grants	16.588					824,472	468,093
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590					(3)	
Residential Substance Abuse Treatment for State Prisoners	16.593					29,012	
Bulletproof Vest Partnership Program	16.607					26,353	
Project Safe Neighborhoods	16.609					10,717	
Public Safety Partnership and Community Policing Grants	16.710					8,950	
Special Data Collections and Statistical Studies	16.734					276,000	
PREA Program: Strategic Support for PREA Implementation	16.735					56,282	
Edward Byrne Memorial Justice Assistance Grant Program	16.738					287,258	89,293
DNA Backlog Reduction Program	16.741					264,583	
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742					198,050	
Support for Adam Walsh Act Implementation Grant Program	16.750					204,061	
Edward Byrne Memorial Competitive Grant Program	16.751					(2)	
Harold Rogers Prescription Drug Monitoring Program	16.754					536,782	
Second Chance Act Reentry Initiative	16.812					71,598	
John R. Justice Prosecutors and Defenders Incentive Act	16.816					10,832	
Smart Prosecution Initiative	16.825					96,766	
Justice Reinvestment Initiative	16.827					310,494	
Comprehensive Opioid, Stimulant, and Substance Abuse Program	16.838					801,670	157,872
Equitable Sharing Program	16.922					958,451	
<b>Total U.S. Department of Justice (DOJ)</b>						<u>\$ 15,578,548</u>	<u>\$ 8,804,280</u>
<b>U.S. Department of Labor (DOL)</b>							
Labor Force Statistics	17.002					\$ 849,930	
Compensation and Working Conditions	17.005					17,363	
Employment Service Cluster:							
Employment Service/Wagner-Peyser Funded Activities	17.207				\$ 2,467,459		
Jobs for Veterans State Grants	17.801				172,232		
Local Veterans' Employment Representative Program	17.804				334,136	2,973,827	
Unemployment Insurance (See Note 6)	17.225				383,449,874		
Unemployment Insurance (See Note 6)	17.225	COVID-19			1,730,031,801	2,113,481,675	
Senior Community Service Employment Program	17.235					423,163	
Trade Adjustment Assistance	17.245					638,758	
WIOA Cluster:							
WIOA Adult Program	17.258				2,681,010		\$ 995,166
WIOA Youth Activities	17.259				3,415,232		1,740,031
WIOA Dislocated Worker Formula Grants	17.278				3,084,225	9,180,467	808,194
WIOA Pilots, Demonstrations, and Research Projects	17.261					(34,774)	
H-1B Job Training Grants	17.268					256,970	
Reentry Employment Opportunities	17.270					(1)	

**STATE OF RHODE ISLAND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Fiscal Year Ended June 30, 2021**

Federal Grantor Program Title	Assistance Listing Number	Additional Award Identification Number	Name of Pass-through Entity	Pass-through Entity Award Number	Federal Expenditures	Total Program or Cluster Expenditures	Passed Through to Subrecipients
WIOA National Dislocated Worker Grants/WIA National Emergency Grants	17.277					3,538,157	
WIOA Dislocated Worker National Reserve Demonstration Grants	17.280					671,847	169,085
Apprenticeship USA Grants	17.285					387,096	
Consultation Agreements	17.504					275,327	
<b>Total U.S. Department of Labor (DOL)</b>						<u>\$ 2,132,659,805</u>	<u>\$ 3,712,476</u>
<b>U.S. Department of Transportation (DOT)</b>							
Airport Improvement Program	20.106				\$ 18,588,515		
Airport Improvement Program	20.106	COVID-19			<u>11,867,563</u>	\$ 30,456,078	
Highway Research and Development Program	20.200					1,199,408	
Highway Planning and Construction Cluster:							
Highway Planning and Construction	20.205				\$ 281,946,119		\$ 2,412,371
Recreational Trails Program	20.219				<u>411,559</u>	282,357,678	
Highway Training and Education	20.215					16,831	
FMCSA Cluster:							
Motor Carrier Safety Assistance	20.218				1,125,972		
Motor Carrier Safety Assistance High Priority Activities Grants and Cooperative Agreements	20.237				<u>33,229</u>	1,159,201	
Commercial Driver's License Program Implementation Grant	20.232					243,976	
Fuel Tax Evasion - Intergovernmental Enforcement Effort	20.240					35,319	
Federal-State Partnership for State of Good Repair	20.326					162,294	
Federal Transit Cluster:							
Federal Transit Capital Investment Grants	20.500				1,747,036		1,293,370
Federal Transit Formula Grants	20.507				40,965,168		317,164
Federal Transit Formula Grants	20.507	COVID-19			39,620,005		
State of Good Repair Grants Program	20.525				4,727,078		
Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	20.526				<u>10,940,467</u>	97,999,754	
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505					608,988	
Formula Grants for Rural Areas and Tribal Transit Program	20.509					160,455	
Public Transportation Emergency Relief Program	20.527					1,644	
Highway Safety Cluster:							
State and Community Highway Safety	20.600				2,421,387		1,259,482
Incentive Grant Program to Prohibit Racial Profiling	20.611				70,969		70,930
National Priority Safety Programs	20.616				<u>2,933,425</u>	5,425,781	1,480,226
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608					5,340,926	2,292,697
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements	20.614					90,644	
Pipeline Safety Program State Base Grant	20.700					176,958	
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703					18,517	
National Infrastructure Investments	20.933					14,597,713	
<b>Total U.S. Department of Transportation (DOT)</b>						<u>\$ 440,052,165</u>	<u>\$ 9,126,240</u>
<b>U.S. Department of the Treasury (TREAS)</b>							
Capital Magnet Fund (See Note 3)	21.011					\$ 5,427,266	
Equitable Sharing	21.016					46,385	
Coronavirus Relief Fund (See Notes 6 and 9)	21.019	COVID-19				947,668,662	\$ 220,852,838
Emergency Rental Assistance Program	21.023	COVID-19				<u>5,001,500</u>	
<b>Total U.S. Department of the Treasury (TREAS)</b>						<u>\$ 958,143,813</u>	<u>\$ 220,852,838</u>
<b>Equal Employment Opportunity Commission (EEOC)</b>							
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002					\$ 157,741	
<b>Total Equal Employment Opportunity Commission (EEOC)</b>						<u>\$ 157,741</u>	<u>\$ -</u>

**STATE OF RHODE ISLAND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Fiscal Year Ended June 30, 2021**

Federal Grantor Program Title	Assistance Listing Number	Additional Award Identification Number	Name of Pass-through Entity	Pass-through Entity Award Number	Federal Expenditures	Total Program or Cluster Expenditures	Passed Through to Subrecipients
<b>General Services Administration (GSA)</b>							
Donation of Federal Surplus Personal Property (See Notes 4 and 9)	39.003					\$ 4,521,138	\$ 4,521,138
<b>Total General Services Administration (GSA)</b>						<u>\$ 4,521,138</u>	<u>\$ 4,521,138</u>
<b>National Endowment for the Arts (NEA)</b>							
Promotion of the Arts Partnership Agreements	45.025				\$ 569,876		\$ 255,362
Promotion of the Arts Partnership Agreements	45.025	COVID-19			<u>119,505</u>	\$ 689,381	82,953
Grants to States	45.310				942,444		153,954
Grants to States	45.310	COVID-19			<u>56,258</u>	998,702	<u>56,258</u>
<b>Total National Endowment for the Arts (NEA)</b>						<u>\$ 1,688,083</u>	<u>\$ 548,527</u>
<b>U.S. Department of Veterans Affairs (VA)</b>							
Veterans State Nursing Home Care	64.015					\$ 8,544,102	
All-Volunteer Force Educational Assistance	64.124					2,831	
Veterans Cemetary Grants Program	64.203					439,701	
All Volunteer Force Education Assistance	64.U01	V101(223C)--P-5453				42,138	
Veterans Home Direct Payment (P.L. 116-260 Sec. 517)	64.U02	COVID100MSHARE				<u>840,916</u>	
<b>Total U.S. Department of Veterans Affairs (VA)</b>						<u>\$ 9,869,688</u>	<u>\$ -</u>
<b>Environmental Protection Agency (EPA)</b>							
State Indoor Radon Grants	66.032					\$ 139,732	
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034					1,129,770	
Diesel Emissions Reduction Act (DERA) State Grants	66.040					218,700	
Healthy Communities Grant Program	66.110					4,251	\$ 4,250
Southeastern U.S. Regional Targeted Watershed Initiative	66.127					17,042	
Southeast New England Coastal Watershed Restoration Program	66.129					416	
Multipurpose Grants to States and Tribes	66.204					1,122	
State Public Water System Supervision	66.432					431,528	
Water Quality Management Planning	66.454					160,480	
Clean Water State Revolving Fund Cluster:							
Capitalization Grants for Clean Water State Revolving Funds	66.458					1,074,049	1,074,049
Drinking Water State Revolving Fund Cluster:							
Capitalization Grants for Drinking Water State Revolving Funds	66.468					7,598,855	4,838,449
Beach Monitoring and Notification Program Implementation Grants	66.472					168,623	
Performance Partnership Grants	66.605					5,207,544	8,250
Environmental Information Exchange Network Grant Program and Related Assistance	66.608					6,064	
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701					49,135	
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707					68,466	
Pollution Prevention Grants Program	66.708					63,665	
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802					354,079	
Underground Storage Tank (UST) Prevention, Detection, and Compliance Program	66.804					246,657	
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805					575,817	
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809					96,179	
State and Tribal Response Program Grants	66.817					739,772	
Brownfields Multipurpose, Assessment, Revolving Loan Fund, and Cleanup Cooperative Agreements	66.818					<u>39,682</u>	
<b>Total Environmental Protection Agency (EPA)</b>						<u>\$ 18,391,628</u>	<u>\$ 5,924,998</u>
<b>U.S. Department of Energy (DOE)</b>							
State Energy Program	81.041				\$ 348,474		
State Energy Program	81.041	ARRA			<u>390,238</u>	738,712	
Weatherization Assistance for Low-Income Persons	81.042					260,446	\$ 260,297

**STATE OF RHODE ISLAND**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2021**

Federal Grantor Program Title	Assistance Listing Number	Additional Award Identification Number	Name of Pass-through Entity	Pass-through Entity Award Number	Federal Expenditures	Total Program or Cluster Expenditures	Passed Through to Subrecipients
Office of Science Financial Assistance Program	81.049					128,927	87,425
Conservation Research and Development	81.086					76,437	
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117					20,270	
State Energy Program Special Projects	81.119					194,523	109,981
State Heating Oil and Propane Program	81.138					15,327	
Maintaining Grid Health in Rural Communities	81.U01	AGR-2020-10203				7,278	
<b>Total U.S. Department of Energy (DOE)</b>						<u>\$ 1,441,920</u>	<u>\$ 457,703</u>
<b>U.S. Department of Education (ED)</b>							
Adult Education - Basic Grants to States	84.002					\$ 2,615,438	\$ 2,060,647
Student Financial Assistance Cluster: (See Note 7)							
Federal Supplemental Educational Opportunity Grants	84.007				\$ 2,892,360		
Federal Work-Study Program	84.033				1,774,809		
Federal Perkins Loan Program - Federal Capital Contributions (See Note 3)	84.038				6,911,239		
Federal Pell Grant Program	84.063				51,919,118		
Federal Direct Student Loans (See Note 3)	84.268				109,817,193		
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379				<u>12,357</u>	173,327,076	
Title I Grants to Local Educational Agencies	84.010					45,844,157	42,513,381
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013					394,765	
Special Education (IDEA) Cluster:							
Special Education Grants to States	84.027				43,652,404		36,866,420
Special Education Preschool Grants	84.173				<u>1,592,412</u>	45,244,816	1,072,651
Higher Education Institutional Aid	84.031					239,892	
TRIO Cluster:							
TRIO Student Support Services	84.042				948,749		
TRIO Talent Search	84.044				613,072		
TRIO Upward Bound	84.047				581,394		
TRIO Educational Opportunity Centers	84.066				944,295		
TRIO McNair Post-Baccalaureate Achievement	84.217				<u>250,325</u>	3,337,835	
Career and Technical Education - Basic Grants to States	84.048					4,232,353	2,961,197
Career and Technical Education - National Programs	84.051					223,967	55,834
Rehabilitation Services Vocational Rehabilitation Grants to States	84.126					7,854,849	
Rehabilitation Services Independent Living Services for Older Individuals Who Are Blind	84.177					241,922	
Special Education - Grants for Infants and Families	84.181					3,321,653	1,964,272
School Safety National Activities (formerly, Safe and Drug-Free Schools and Communities - National Programs)	84.184					620,062	42,089
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187					235,013	
Education for Homeless Children and Youth	84.196					243,786	186,009
Assistive Technology	84.224					290,524	
Charter Schools	84.282					1,947,309	1,595,688
Twenty-First Century Community Learning Centers	84.287					4,733,523	4,440,429
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325					225,183	
Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326					62,803	
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334					2,932,469	2,931,590
English Language Acquisition State Grants	84.365					1,591,445	1,228,414
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367					8,713,210	8,002,600
Grants for State Assessments and Related Activities	84.369					3,647,581	
Comprehensive Literacy Development	84.371					3,631,873	2,952,721
Statewide Longitudinal Data Systems	84.372					740,396	
School Improvement Grants	84.377					1,012,302	459,040

**STATE OF RHODE ISLAND**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2021**

Federal Grantor Program Title	Assistance Listing Number	Additional Award Identification Number	Name of Pass-through Entity	Pass-through Entity Award Number	Federal Expenditures	Total Program or Cluster Expenditures	Passed Through to Subrecipients
Transition Programs for Students with Intellectual Disabilities into Higher Education	84.407					284,269	
Education Innovation and Research (formerly Investing in Innovation (i3) Fund)	84.411					1,012,524	414,036
Student Support and Academic Enrichment Program	84.424					5,848,592	5,650,876
Education Stabilization Fund:							
Elementary and Secondary School Emergency Relief (ESSER) Fund	84.425D	COVID-19			1,506,666		
Higher Education Emergency Relief Fund (HEERF) - Student Aid Portion	84.425E	COVID-19			16,682,903		
Higher Education Emergency Relief Fund (HEERF) - Institution Portion	84.425F	COVID-19			36,131,039		
Higher Education Emergency Relief Fund (HEERF) - Strengthening Institutions Program	84.425M	COVID-19			<u>513,377</u>	54,833,985	
National Center For Educational Statistics	84.U01	91990020C0023				371	
National Assessment Of Educational Programs	84.U02	91990020C0023				158,819	
<b>Total U.S. Department of Education (ED)</b>						<u>\$ 379,644,762</u>	<u>\$ 115,397,894</u>
<b>Consumer Product Safety Commission (CPSC)</b>							
Virginia Graeme Baker Pool and Spa Safety	87.002					<u>\$ 122,968</u>	
<b>Total Consumer Product Safety Commission (CPSC)</b>						<u>\$ 122,968</u>	<u>\$ -</u>
<b>Election Assistance Commission (EAC)</b>							
Help America Vote Act Requirements Payments	90.401					\$ 22,852	
2018 HAVA Election Security Grants	90.404				\$ 413,757		
2018 HAVA Election Security Grants	90.404	COVID-19			1,899,811	2,313,568	
<b>Total Election Assistance Commission (EAC)</b>						<u>\$ 2,336,420</u>	<u>\$ -</u>
<b>U.S. Department of Health and Human Services (HHS)</b>							
Special Programs for the Aging, Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041					\$ 23,970	
Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	93.042				\$ 106,428		\$ 106,403
Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	93.042	COVID-19			<u>72,413</u>	178,841	72,400
Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services	93.043					80,652	80,631
Aging Cluster:							
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	93.044				2,268,259		1,514,743
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	COVID-19			50,986		50,986
Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045				2,669,505		2,174,666
Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045	COVID-19			2,517,389		2,516,324
Nutrition Services Incentive Program	93.053				<u>400,129</u>	7,906,268	400,000
Special Programs for the Aging, Title IV, and Title II, Discretionary Projects	93.048				202,742		100,468
Special Programs for the Aging, Title IV, and Title II, Discretionary Projects	93.048	COVID-19			<u>213,409</u>	416,151	213,346
National Family Caregiver Support, Title III, Part E	93.052				733,859		733,629
National Family Caregiver Support, Title III, Part E	93.052	COVID-19			<u>67,124</u>	800,983	67,107
Public Health Emergency Preparedness	93.069					4,592,494	524,624
Environmental Public Health and Emergency Response	93.070					1,399,939	9,009
Medicare Enrollment Assistance Program	93.071					93,011	70,791
Lifespan Respite Care Program	93.072					227,861	170,963
Birth Defects and Developmental Disabilities - Prevention and Surveillance	93.073					83,048	
Hospital Preparedness Program (HPP) and public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074					(24,393)	



**STATE OF RHODE ISLAND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Fiscal Year Ended June 30, 2021**

Federal Grantor Program Title	Assistance Listing Number	Additional Award Identification Number	Name of Pass-through Entity	Pass-through Entity Award Number	Federal Expenditures	Total Program or Cluster Expenditures	Passed Through to Subrecipients
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	93.079					68,739	
Guardianship Assistance	93.090				1,103,217		
Guardianship Assistance	93.090	COVID-19			<u>(295,918)</u>	807,299	
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092					245,837	109,873
Food and Drug Administration Research	93.103					897,359	
Maternal and Child Health Federal Consolidated Programs	93.110				1,327,291		893,278
Maternal and Child Health Federal Consolidated Programs	93.110	COVID-19			20,291		16,500
Maternal and Child Health Federal Consolidated Programs	93.110		Rhode Island Hospital	N/A	<u>113,705</u>	1,461,287	
Environmental Health	93.113					106,663	39,408
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116					224,641	
Emergency Medical Services for Children	93.127					168,709	63,412
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130					114,487	
Injury Prevention and Control Research and State and Community Based Programs	93.136				4,925,545		1,899,759
Injury Prevention and Control Research and State and Community Based Programs	93.136	COVID-19			<u>131,462</u>	5,057,007	110,551
Projects for Assistance in Transition from Homelessness (PATH)	93.150					246,497	246,423
Grants to States for Loan Repayment	93.165					513,688	
Childhood Lead Poisoning Prevention Projects, State and Local							
Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197					532,271	
Family Planning Services	93.217					1,458,129	773,000
Traumatic Brain Injury State Demonstration Grant Program	93.234					85,949	4,011
Grants to States to Support Oral Health Workforce Activities	93.236					176,185	
State Capacity Building	93.240					375,437	
Mental Health Research Grants	93.242					49,960	
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243					9,687,472	5,715,871
Early Hearing Detection and Intervention	93.251					254,303	109,229
Immunization Cooperative Agreements (See Note 4)	93.268				16,888,967		111,542
Immunization Cooperative Agreements (See Note 4)	93.268	COVID-19			<u>5,031,004</u>	21,919,971	587,175
Viral Hepatitis Prevention and Control	93.270					592,075	190,617
Drug Abuse and Addiction Research Programs	93.279					134,609	10,921
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283					1,041,132	420,090
State Partnership Grant Program to Improve Minority Health	93.296					41,400	14,239
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					22,321	
CSELS Partnership: Strengthening Public Health Laboratories	93.322					32,104	
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323				1,794,204		35,115
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323	COVID-19			<u>55,309,124</u>	57,103,328	4,085,895
State Health Insurance Assistance Program	93.324					216,731	102,301
The Healthy Brain Initiative: Technical Assistance to Implement Public Health Actions related to Cognitive Health, Cognitive Impairment, and Caregiving at the State and Local Levels	93.334					101,684	
Behavioral Risk Factor Surveillance System	93.336					270,864	
Student Financial Assistance Cluster: (See Note 7)							
Health Professions Student Loans, Including Primary Care							
Loans/Loans for Disadvantaged Students (See Note 3)	93.342				2,628,586		
Nursing Student Loans (See Note 3)	93.364				<u>2,409,060</u>	5,037,646	
Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	93.354				(609)		
Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	93.354	COVID-19			<u>2,879,445</u>	2,878,836	
State Actions to Improve Oral Health Outcomes and Partner Actions to Improve Oral Health Outcomes	93.366					2,227,641	423,919

**STATE OF RHODE ISLAND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Fiscal Year Ended June 30, 2021**

Federal Grantor Program Title	Assistance Listing Number	Additional Award Identification Number	Name of Pass-through Entity	Pass-through Entity Award Number	Federal Expenditures	Total Program or Cluster Expenditures	Passed Through to Subrecipients
ACL Independent Living State Grants	93.369					429,040	
National and State Tobacco Control Program	93.387					846,978	188,510
The State Flexibility to Stabilize the Market Grant Program	93.413					11,870	
Strengthening Public Health Systems and Services through National Partnerships to Improve and Protect the Nation's Health	93.421	COVID-19				59,683	
Every Student Succeeds Act/Preschool Development Grants	93.434					5,155,640	3,925,005
Innovative State and Local Public Health Strategies to Prevent and Manage Diabetes and Heart Disease and Stroke	93.435					2,566,661	357,769
Food Safety and Security Monitoring Project	93.448					34,439	
Alzheimer's Disease Program Initiative (ADPI)	93.470					178,623	113,558
Pregnancy Assistance Fund Program	93.500					156,754	116,633
Public Health Training Centers Program	93.516					12,402	
MaryLee Allen Promoting Safe and Stable Families Program	93.556					1,453,244	
Temporary Assistance for Needy Families	93.558					61,644,318	8,113,873
Child Support Enforcement	93.563					10,803,530	
Refugee and Entrant Assistance State/Replacement Designee Administered Programs	93.566					269,289	233,935
Low-Income Home Energy Assistance	93.568				27,849,838		25,855,233
Low-Income Home Energy Assistance	93.568	COVID-19			4,647,690	32,497,528	4,647,690
Community Services Block Grant	93.569				4,162,418		4,136,545
Community Services Block Grant	93.569	COVID-19			2,171,499	6,333,917	2,170,923
CCDF Cluster:							
Child Care and Development Block Grant	93.575				11,902,025		3,821,192
Child Care and Development Block Grant	93.575	COVID-19			21,325,860		1,860,519
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596				11,160,867	44,388,752	
Refugee and Entrant Assistance Discretionary Grants	93.576					117,631	96,283
State Court Improvement Program	93.586				198,003		
State Court Improvement Program	93.586	COVID-19			32,686	230,689	
Community-Based Child Abuse Prevention Grants	93.590					180,668	
Grants to States for Access and Visitation Programs	93.597					72,257	
Chafee Education and Training Vouchers Program (ETV)	93.599				21,873		
Chafee Education and Training Vouchers Program (ETV)	93.599	COVID-19			77,147	99,020	
Head Start	93.600					124,313	
Adoption and Legal Guardianship Incentive Payments	93.603					805,721	
Community Health Access and Rural Transformation (CHART) Model	93.624					9,596	8,971
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632					416,833	
Support for Ombudsman and Beneficiary Counseling Programs for States Participating in Financial Alignment Model Demonstrations for Dually Eligible Individuals	93.634					412,232	173,168
Children's Justice Grants to States	93.643					91,972	
Stephanie Tubbs Jones Child Welfare Services Program	93.645				814,488		
Stephanie Tubbs Jones Child Welfare Services Program	93.645	COVID-19			118,933	933,421	
Adoption Opportunities	93.652					4,424	
Foster Care Title IV-E	93.658				14,784,253		
Foster Care Title IV-E	93.658	COVID-19			615,233	15,399,486	
Adoption Assistance	93.659				9,137,750		
Adoption Assistance	93.659	COVID-19			886,141	10,023,891	
Substance Use-Disorder Prevention that Promotes Opioid Recovery and Treatment (SUPPORT) for Patients and Communities Act	93.664					1,871,878	
Emergency Grants to Address Mental and Substance Use Disorders During COVID-19	93.665	COVID-19				810,276	577,143
Social Services Block Grant	93.667					11,455,391	2,517,427
Child Abuse and Neglect State Grants	93.669					370,264	
Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	93.671				647,036		646,833
Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	93.671	COVID-19			55,791	702,827	55,776

**STATE OF RHODE ISLAND**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2021**

Federal Grantor Program Title	Assistance Listing Number	Additional Award Identification Number	Name of Pass-through Entity	Pass-through Entity Award Number	Federal Expenditures	Total Program or Cluster Expenditures	Passed Through to Subrecipients
John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674				247,181		
John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674	COVID-19			<u>151,583</u>	398,764	
Mental and Behavioral Health Education and Training Grants	93.732					405,122	
Empowering Older Adults and Adults with Disabilities through Chronic Disease Self-Management Education Programs, financed by Prevention and Public Health Funds (PPHF)	93.734					36,182	
State Public Health Approaches for Ensuring Quitline Capacity, funded in part by Prevention and Public Health Funds (PPHF)	93.735					7,329	
Elder Abuse Prevention Interventions Program	93.747				202,022		34,041
Elder Abuse Prevention Interventions Program	93.747	COVID-19			<u>3,980</u>	206,002	
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations, financed in part by Prevention and Public Health Funds (PPHF)	93.752					1,578,873	215,825
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	93.757					3	
Preventive Health and Health Services Block Grant, funded solely with Prevention and Public Health Funds (PPHF)	93.758					61	
Children's Health Insurance Program (See Note 5)	93.767				75,776,335		
Children's Health Insurance Program (See Note 5)	93.767	COVID-19			<u>4,582,723</u>	80,359,058	
Medicaid Cluster:							
State Medicaid Fraud Control Units	93.775				951,369		
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777				3,777,051		
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777	COVID-19			51,080		
Medical Assistance Program (See Notes 5, 8 and 9)	93.778				1,930,686,514		
Medical Assistance Program (See Notes 5, 8 and 9)	93.778	COVID-19			<u>120,414,960</u>	2,055,880,974	
Opioid STR	93.788					9,517,728	8,121,354
Money Follows the Person Rebalancing Demonstration	93.791					2,156,521	563,699
Organized Approaches to Increase Colorectal Cancer Screening	93.800					578,752	185,063
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817					55,324	
Section 223 Demonstration Programs to Improve Community Mental Health Services	93.829					7	
Allergy and Infectious Diseases Research	93.855					101,234	
Maternal, Infant and Early Childhood Home Visiting Grant	93.870					8,082,920	6,429,600
National Bioterrorism Hospital Preparedness Program	93.889				1,290,955		690,745
National Bioterrorism Hospital Preparedness Program	93.889	COVID-19			<u>1,319,113</u>	2,610,068	1,009,446
Family and Community Violence Prevention Program	93.910					230,491	96,608
Grants to States for Operation of State Offices of Rural Health	93.913					128,498	13,665
HIV Care Formula Grants (See Note 5)	93.917				12,576,025		6,180
HIV Care Formula Grants (See Note 5)	93.917	COVID-19			<u>171,224</u>	12,747,249	144,193
HIV Prevention Activities Health Department Based	93.940					1,226,816	443,870
Assistance Programs for Chronic Disease Prevention and Control	93.945					302,522	
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946					123,311	
Block Grants for Community Mental Health Services	93.958					2,928,382	2,485,648
Block Grants for Prevention and Treatment of Substance Abuse	93.959				6,778,748		6,050,266
Block Grants for Prevention and Treatment of Substance Abuse	93.959	COVID-19			<u>25,000</u>	6,803,748	25,000
Sexually Transmitted Diseases (STD) Prevention and Control Grants	93.977					328,027	34,901
Preventive Health and Health Services Block Grant	93.991					699,324	257,404
Maternal and Child Health Services Block Grant to the States	93.994					1,740,871	740,784
Mammography Quality Standards Act	93.U01	HHSF223201710206C				60,602	
Vital Records - National Death Index	93.U02	200-2017-M-93737				28,466	
Vital Records - SSA Death Data	93.U03	SS00-12-60050				22,769	
Vital Records - SSA Birth Data/EAB	93.U04	SS00-14-61090				42,206	
Food Inspections	93.U05	HHSF223201710096C				94,954	
Vital Records - Data Collection	93.U06	200-2017-92545				470,840	

**STATE OF RHODE ISLAND**  
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**Fiscal Year Ended June 30, 2021**

Federal Grantor Program Title	Assistance Listing Number	Additional Award Identification Number	Name of Pass-through Entity	Pass-through Entity Award Number	Federal Expenditures	Total Program or Cluster Expenditures	Passed Through to Subrecipients
Ovarian Cancer Care Improvement	93.U07	19BFSK0021				35,849	
Transformation Transfer Initiative	93.U08	SC-3011.3-RI-01				58,188	58,188
Childhood Cancer Star Project	93.U09	75D30119C04797				11,705	11,698
<b>Total U.S. Department of Health and Human Services (HHS)</b>					<b>\$ 2,530,966,284</b>	<b>\$ 112,004,383</b>	
<b>Corporation for National and Community Service (CNCS)</b>							
State Commissions	94.003				\$ 165,498		
AmeriCorps	94.006				1,162,005	\$ 1,162,005	
Training and Technical Assistance	94.009				186,172	20,169	
Foster Grandparent/Senior Companion Cluster: Senior Companion Program	94.016				413,632	234,153	
<b>Total Corporation for National and Community Service (CNCS)</b>					<b>\$ 1,927,307</b>	<b>\$ 1,416,327</b>	
<b>Social Security Administration (SSA)</b>							
Disability Insurance/SSI Cluster: Social Security Disability Insurance	96.001				\$ 9,556,183		
Social Security - Work Incentives Planning and Assistance Program	96.008				129,765		
Social Security Investigations	96.U01	10.066.3005117			191,713		
<b>Total Social Security Administration (SSA)</b>					<b>\$ 9,877,661</b>	<b>\$ -</b>	
<b>U.S. Department of Homeland Security (DHS)</b>							
Non-Profit Security Program	97.008				\$ 72,147	\$ 72,128	
Boating Safety Financial Assistance	97.012				985,832		
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023				1,409		
Emergency Food and Shelter National Board Program	97.024				58,322		
Crisis Counseling	97.032	COVID-19			886,198		637,773
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (See Note 9)	97.036				\$ 1,094,838		
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (See Note 9)	97.036	COVID-19			182,946,726	184,041,564	12,271,711
Hazard Mitigation Grant	97.039				263,667	263,631	
National Dam Safety Program	97.041				8,014		
Emergency Management Performance Grants	97.042				2,687,382	444,596	
Assistance to Firefighters Grant	97.044				128,844		
Federal Disaster Assistance to Individuals and Households in Presidential Declared Disaster Areas	97.048				26,623	10,500	
Presidential Declared Disaster Assistance to Individuals and Households - Other Needs (See Note 6)	97.050	COVID-19			172,253,113		
Port Security Grant Program	97.056				204,203		
Homeland Security Grant Program	97.067				3,663,820	897,937	
Aviation Research Grants	97.069				35,739		
National Explosives Detection Canine Team Program	97.072				151,499		
Law Enforcement Officer Reimbursement Agreement Program	97.090				114,940		
<b>Total U.S. Department of Homeland Security (DHS)</b>					<b>\$ 365,583,316</b>	<b>\$ 14,598,276</b>	
<b>Research and Development Cluster: (See Note 1)</b>							
<b>U.S. Department of Agriculture (USDA)</b>							
Agricultural Research Basic and Applied Research	10.001				\$ 110,918		
Plant and Animal Disease, Pest Control, and Animal Care	10.025				87,393		
Plant and Animal Disease, Pest Control, and Animal Care	10.025		University of Connecticut, Storrs	418586	2,668		
Specialty Crop Block Grant Program - Farm Bill	10.170				83,286		\$ 11,383
Acer Access Development Program	10.174				170,143		
Grants for Agricultural Research, Special Research Grants	10.200				71,021		
Grants for Agricultural Research, Special Research Grants	10.200		University of Maryland	91285-2511204	20,534		
Grants for Agricultural Research, Special Research Grants	10.200		University of Maryland	91289-2511208	26,239		183
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203				1,363,946		
Animal Health and Disease Research	10.207				11,580		
Sustainable Agriculture Research and Education	10.215		University of Vermont	GNE19-192-33243	5,082		

**STATE OF RHODE ISLAND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
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<b>Federal Grantor</b>	<b>Assistance Listing Number</b>	<b>Additional Award Identification Number</b>	<b>Name of Pass-through Entity</b>	<b>Pass-through Entity Award Number</b>	<b>Federal Expenditures</b>	<b>Total Program or Cluster Expenditures</b>	<b>Passed Through to Subrecipients</b>
Sustainable Agriculture Research and Education	10.215		University of Vermont	SNE19-12-34268	4,240		
Sustainable Agriculture Research and Education	10.215		University of Vermont	SNE20-012-RI-34268	12,869		
Sustainable Agriculture Research and Education	10.215		University of Vermont	LNE19-381-33243	50,428		
Higher Education - Multicultural Scholars Grant Program	10.220				32,500		
Integrated Programs	10.303		West Virginia University	18-726-URI	24,270		
Homeland Security Agricultural	10.304		Cornell University	80289-10775	4,367		
Homeland Security Agricultural	10.304		Michigan State University	RC106556AF	21,671		
Specialty Crop Research Initiative	10.309				9,732		
Specialty Crop Research Initiative	10.309		Pennsylvania State University	S000323-USDA	51,216		
Agriculture and Food Research Initiative (AFRI)	10.310				684,448		40,559
Agriculture and Food Research Initiative (AFRI)	10.310		University of Washington	UWSC10287	30,897		
Agriculture and Food Research Initiative (AFRI)	10.310		University of Connecticut, Storrs	420026	6,833		
Agriculture and Food Research Initiative (AFRI)	10.310		University of Massachusetts Medical School	OSP18346-02	17,726		
National Food Safety Training, Education, Extension, Outreach, and Technical Assistance Competitive Grants Program	10.328		University of Massachusetts, Amherst	18 10161A00	7,116		
Crop Protection and Pest Management Competitive Grants Program	10.329				125,975		
Cooperative Extension Service	10.500				1,255,148		
Cooperative Extension Service	10.500		Auburn University	Putnam_UnivAuburn	(179)		
Expanded Food and Nutrition Education Program	10.514				279,439		
Renewable Resources Extension Act and National Focus Fund Projects	10.515				40,590		
Soil and Water Conservation	10.902				23,992		10,899
Soil Survey	10.903				6,675		
Environmental Quality Incentives Program	10.912				105,736		11,141
Regional Conservation Partnership Program	10.930		Connecticut Council on Soil & Water Conservation	08-URI-SH	12,137		
Technical Agricultural Assistance	10.960				104,153		
Other Research and Development - Department of Agriculture	10.RD	57326	National Crop Insurance Services	57326	14,763		
Other Research and Development - Department of Agriculture	10.RD	RIRCD McWilliams 100219	RI Resource Conservation & Development	RIRCD McWilliams 100219	120,627		
<b>U.S. Department of Commerce (DOC)</b>							
Ocean Exploration	11.011				428,233		2,860
Integrated Ocean Observing System (IOOS)	11.012		Northeastern Regional Association of Coastal Ocean Observing Systems	A008-003	62,516		
Integrated Ocean Observing System (IOOS)	11.012		Rutgers University	731601	14,614		
Sea Grant Support	11.417				2,663,003		272,302
Sea Grant Support	11.417		University of Connecticut, Storrs	36463	32,155		
Sea Grant Support	11.417		University of Connecticut, Storrs	368948	90,389		
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	11.427				118,465		16,358
Marine Sanctuary Program	11.429		Ocean Exploration Trust	2020-131	62,500		
Climate and Atmospheric Research	11.431				56,284		
Climate and Atmospheric Research	11.431		RI Natural History Survey	2019-1	26,396		
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432				7,278,343		6,561,665
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432		Woods Hole Oceanographic Institution	A101446	1,236		
Marine Fisheries Initiative	11.433				95,770		31,741
Unallied Management Projects	11.454				788		
Meteorologic and Hydrologic Modernization Development	11.467		Northeast States Emergency Consortium	NA19NWS4670011-SUD	41,258		
Office for Coastal Management	11.473		National Fish and Wildlife Foundation	0318.20.069217	31,315		
Atlantic Coastal Fisheries Cooperative Management Act	11.474		Rutgers University	1194043	64,065		
Center for Sponsored Coastal Ocean Research Coastal Ocean Program	11.478				43,441		4,031
Measurement and Engineering Research and Standards	11.609		Enfield Department	Enfield Fire_Parent	31,087		
Manufacturing Extension Partnership	11.611				46,821		
Other Research and Development - Department of Commerce	11.RD	NOAA-2	The Nature Conservancy	NOAA-2	3,070		

**STATE OF RHODE ISLAND**  
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**Fiscal Year Ended June 30, 2021**

Federal Grantor Program Title	Assistance Listing Number	Additional Award Identification Number	Name of Pass-through Entity	Pass-through Entity Award Number	Federal Expenditures	Total Program or Cluster Expenditures	Passed Through to Subrecipients
Other Research and Development - Department of Commerce	11.RD	18-24	New England Fishery Management Council	18-24	8,390		
Other Research and Development - Department of Commerce	11.RD	NA20NWS4670061-SURI	Northeast States Emergency Consortium	NA20NWS4670061-SURI	40,098		
Other Research and Development - Department of Commerce	11.RD	2021-02	Ocean Exploration Trust	2021-02	20,000		
<b>U.S. Department of Defense (DOD)</b>							
Community Economic Adjustment Assistance for Responding to Threats to the Resilience of a Military Installation	12.003		City of Newport, Rhode Island	1	159,233		
Basic and Applied Scientific Research	12.300				3,146,087		43,256
Basic and Applied Scientific Research	12.300		Creare LLC	103289	123,714		
Basic and Applied Scientific Research	12.300		Electro Standards Laboratories	FSElectro12019	487		
Basic and Applied Scientific Research	12.300		McLaughlin Research Corporation	PO-20-0902	30,932		
Basic and Applied Scientific Research	12.300		McLaughlin Research Corporation	PO-19-0854	9,888		
Basic and Applied Scientific Research	12.300		Naval Undersea Warfare Center	N00174-19-1-0005	81,079		
Basic and Applied Scientific Research	12.300		TelAztec	N00178-17-C-1323	15,214		
Basic and Applied Scientific Research	12.300		Goetz Composites	NVX-20-URI-1	22,886		
Basic and Applied Scientific Research	12.300		Navatek	00-K493-9000000	231,940		
Basic and Applied Scientific Research	12.300		Physical Science Inc.	SC-8030-001	116,187		
Basic and Applied Scientific Research	12.300		University of Massachusetts, Dartmouth	32953-VC-RB-110892	6,148		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	165273	106,237		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	347117	65,853		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	347119	2,664		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	347120	7,793		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	347122	318		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	347123	102,114		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	347124	30,942		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	347127	24,108		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	347128	106,032		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	347130	8,881		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	347131	2,434		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	386360	25,065		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	386364	10,833		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	386368	29,801		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	386373	92,567		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	386378	49,939		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	386380	41,710		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	386381	107,072		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	386382	87,779		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	386388	572,365		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	388683	22,121		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	388687	43,339		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	389994	35,572		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	390719	30,909		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	405429	90,146		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	405447	41,601		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	419210	92,197		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	419212	13,542		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	419214	26,168		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	419215	2,983		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	419221	51,701		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	419224	73,386		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	422919	18,290		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	422920	12,352		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	422921	20,890		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	422924	12,786		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	422925	5,163		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	422926	3,594		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	422927	8,999		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	422928	33,845		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	422929	26,617		

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Federal Grantor Program Title	Assistance Listing Number	Additional Award Identification Number	Name of Pass-through Entity	Pass-through Entity Award Number	Federal Expenditures	Total Program or Cluster Expenditures	Passed Through to Subrecipients
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	422930	21,015		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	422931	24,717		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	422932	2,406		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	423318	31,147		
Basic and Applied Scientific Research	12.300		University of Connecticut, Storrs	426742	26,199		
Scientific Research - Combating Weapons of Mass Destruction	12.351				138		
Scientific Research - Combating Weapons of Mass Destruction	12.351		Northeastern University	505201-78050	180,118		
Scientific Research - Combating Weapons of Mass Destruction	12.351		Northeastern University	505187-78050	119,379		
Military Medical Research and Development	12.420		The Research Foundation for SUNY	1156130-85693	29,515		
Basic Scientific Research	12.431				213,456		12,457
The Language Flagship Grants to Institutions of Higher Education	12.550				476,468		
The Language Flagship Grants to Institutions of Higher Education	12.550		Institute for International Education	IIE_He_03.31.21	23,110		
Basic, Applied, and Advanced Research in Science and Engineering	12.630				158,823		1,048
Basic, Applied, and Advanced Research in Science and Engineering	12.630		Harvard University	124152-5105177	100,749		
Air Force Defense Research Sciences Program	12.800				381,182		
Air Force Defense Research Sciences Program	12.800		Electro Standards Laboratories	FSElectro12017	16,214		
Other Research and Development - Department of Defense	12.RD	347129	University of Connecticut	347129	145,912		
Other Research and Development - Department of Defense	12.RD	15700-0040/001	Cherokee Nation Technology Solutions	15700-0040/001	50,359		
<b>U.S. Department of the Interior (DOI)</b>							
Bureau of Ocean Energy Management Renewable Energy	15.408				11,035		
Bureau of Ocean Energy Management (BOEM) Environmental Studies (ES)	15.423				25,484		
Bureau of Ocean Energy Management (BOEM) Environmental Studies (ES)	15.423		HDR / e2M	1000300001036	45,752		
Water Desalination Research and Development	15.506				10,646		
Fish and Wildlife Management Assistance	15.608		Wildlife Management Institute	GSA 00076 Supplement	2,661		
Coastal	15.630				93,046		
Coastal	15.630		Wildlife Management Institute	FS2018McGreevy	5,004		
Coastal	15.630		Wildlife Management Institute	GSA 00076	61,619		
Migratory Bird Joint Ventures	15.637				52,104		
Migratory Bird Monitoring, Assessment and Conservation	15.655				2,606		
Hurricane Sandy Disaster Relief Activities - FWS	15.677				31,038		
Cooperative Ecosystem Studies Units	15.678				95,298		
Assistance to State Water Resources Research Institutes	15.805				72,513		
Economic, Social, and Political Development of the Territories	15.875		HDR / e2M	1000300001232	82,301		
Natural Resource Stewardship	15.944		New Mexico Department of Game & Fish	AWD08023	11,387		
Cooperative Research and Training Programs – Resources of the National Park System	15.945				394,240		18,221
Other Research and Development - Department of the Interior	15.RD	G17PA00033			244		
Other Research and Development - Department of the Interior	15.RD	140M0118C0001			140,047		33,326
Other Research and Development - Department of the Interior	15.RD	1000300001414	HDR / e2M	1000300001414	9,270		
Other Research and Development - Department of the Interior	15.RD	AV18-RI-01	AmericaView	AV18-RI-01	28,109		
<b>U.S. Department of Transportation (DOT)</b>							
Other Research and Development - Department of Transportation	20.RD	UMS-1185	University of Maine	UMS-1185	105,703		
<b>National Aeronautics and Space Administration (NASA)</b>							
Science	43.001				514,804		
Science	43.001		University of Colorado Boulder	1552614	24,962		
Science	43.001		Earth and Science Research	2017-241-URI	13,182		
Science	43.001		Woods Hole Group, Inc.	23156800 / A101249	13,724		
Science	43.001		University of Washington	UWSC10146	50,574		
Science	43.001		Skidmore College	32175-2	161		
Science	43.001		Farallon Institute	020-241-URI	19,752		
Science	43.001		University of Maine	UMS1296	8,365		
Office of Stem Engagement (OSTEM)	43.008		Brown University	00001476	7,844		
Office of Stem Engagement (OSTEM)	43.008		Brown University	00001572	9,962		
Office of Stem Engagement (OSTEM)	43.008		Brown University	00001615	10,035		
Office of Stem Engagement (OSTEM)	43.008		Brown University	00001616	37,547		
Office of Stem Engagement (OSTEM)	43.008		Brown University	00001617	43,603		
Office of Stem Engagement (OSTEM)	43.008		Brown University	00001633	27,270		

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Other Research and Development - National Aeronautics and Space Administration	43.RD	80NSSC19K0994			30,623		
Other Research and Development - National Aeronautics and Space Administration	43.RD	5710004170	Massachusetts Institute of Technology	5710004170	27,876		
Other Research and Development - National Aeronautics and Space Administration	43.RD	00001614	Brown University	00001614	10,035		
Other Research and Development - National Aeronautics and Space Administration	43.RD	00001501	Brown University	00001501	14,244		
<b>National Science Foundation (NSF)</b>							
Engineering	47.041				1,245,521		15,098
Engineering	47.041		University of Southern Mississippi	8006386-01.01 URI	617		
Mathematical and Physical Sciences	47.049				180,942		
Geosciences	47.050				9,438,772		225,446
Geosciences	47.050		Texas A&M Research Foundation	F001329/41829BA33	331		
Geosciences	47.050		University of Washington	UWSC11189	21,813		
Geosciences	47.050		Woods Hole Oceanographic Institution	82423600	11,655		
Geosciences	47.050		Woods Hole Oceanographic Institution	85568600	90,290		
Geosciences	47.050		Brown University	1141	43,429		
Geosciences	47.050		Lamont-Doherty Earth Observatory	OCE 1450528	30,182		
Computer and Information Science and Engineering	47.070				831,122		1,283
Computer and Information Science and Engineering	47.070		Columbia University	3(GG014586-02)	6,983		
Computer and Information Science and Engineering	47.070		Columbia University	9(GG014586-02)	15,281		
Computer and Information Science and Engineering	47.070		Yale University	GR109669(CON-80002382)	4,500		
Biological Sciences	47.074				1,008,209		30,033
Biological Sciences	47.074		University of Arizona	466240	11,721		
Biological Sciences	47.074		Washington State University Vancouver	Subaward138/022-G00414	8,580		
Social, Behavioral, and Economic Sciences	47.075				141,659		1,212
Education and Human Resources	47.076				923,078		65,617
Polar Programs	47.078				1,734		
Polar Programs	47.078		University of Connecticut, Storrs	KFS#5628610, PO13627	83,533		
Office of International Science and Engineering	47.079				428,655		315,242
Office of International Science and Engineering	47.079		University of New Hampshire	16-019	40,688		
Integrative Activities	47.083				4,446,579		1,098,525
Integrative Activities	47.083		Dartmouth College	R1302	148,355		
Integrative Activities	47.083		University of Southern California	88919743	402,095		
Other Research and Development - National Science Foundation	47.RD	IGA11227782	Oregon State University	IGA112277782	46,729		
<b>Small Business Administration (SBA)</b>							
Small Business Development Centers	59.037				1,210,063		
<b>Environmental Protection Agency (EPA)</b>							
Southeast New England Coastal Watershed Restoration Program	66.129		Restore America's Estuaries	SNEPWG18-6-URI	79,602		4,891
Southeast New England Coastal Watershed Restoration Program	66.129		Restore America's Estuaries	SNEPWG20-6-URI-MHB	41,035		
Southeast New England Coastal Watershed Restoration Program	66.129		University of Maine	SNEP1-06	57,754		
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	66.436		Rural Community Assistance Partnership	83938801	5,010		
Research, Development, Monitoring, Public Education, Outreach, Training, Demonstrations, and Studies	66.716		Extension Foundation	SA-2020-29	806		
Environmental Education Grants	66.951				14,242		
Other Research and Development - Environmental Protection Agency	66.RD	75K000011DB	General Dynamics Information Technology	75K000011DB	7,726		
Other Research and Development - Environmental Protection Agency	66.RD	00A00249	Extension Foundation	00A00249	16,676		
Other Research and Development - Environmental Protection Agency	66.RD	00A00252	Mass Audubon	00A00252	37,650		
<b>U.S. Department of Energy (DOE)</b>							
Office of Science Financial Assistance Program	81.049				88,317		
Office of Science Financial Assistance Program	81.049		Donald Danforth Plant Science Center	23021-R	416,795		
Office of Science Financial Assistance Program	81.049		Pennsylvania State University	5027-URI-DOE-1090	148,501		
Office of Science Financial Assistance Program	81.049		University of Georgia	SUB00001808	31,789		
Los Alamos National Laboratory - Fire Protection	81.140		Triad National Security, LLC	526876	15,254		



**STATE OF RHODE ISLAND**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2021**

Federal Grantor Program Title	Assistance Listing Number	Additional Award Identification Number	Name of Pass-through Entity	Pass-through Entity Award Number	Federal Expenditures	Total Program or Cluster Expenditures	Passed Through to Subrecipients
Los Alamos National Laboratory - Fire Protection	81.140		Triad National Security, LLC	526766	8,181		
Other Research and Development - Department of Energy	81.RD	TSI-4089-20-20203103			19,041		
Other Research and Development - Department of Energy	81.RD	TSI-2576-19-109768	Triton Systems, Inc.	TSI-2576-19-109768	22,125		
Other Research and Development - Department of Energy	81.RD	TSI-2576-19-108768	Triton Systems, Inc.	TSI-2576-19-108768	35,073		
Other Research and Development - Department of Energy	81.RD	USABC-Gotion	Gotion	USABC-Gotion	191,961		
Other Research and Development - Department of Energy	81.RD	378690	Brookhaven National Laboratories	378690	93,996		
Other Research and Development - Department of Energy	81.RD	7456216	Lawrence Berkeley National Laboratory	7456216	5,043		
<b>U.S. Department of Education (ED)</b>							
Ready-to-Learn Television	84.295		PBS	URI/Sweetman	28,918		
Education Research, Development and Dissemination	84.305		University of Wisconsin, Madison	184	6,718		
<b>U.S. Department of Health and Human Services (HHS)</b>							
Food and Drug Administration Research	93.103				250,394		
Food and Drug Administration Research	93.103		University of Connecticut, Storrs	362106	280,589		
Area Health Education Centers	93.107		Brown University	00001125	89,130		
Area Health Education Centers	93.107		Brown University	00001676	11,849		
Maternal and Child Health Federal Consolidated Programs	93.110				20,275		
Environmental Health	93.113				553,053		
Oral Diseases and Disorders Research	93.121				424,798		119,958
NIEHS Superfund Hazardous Substances - Basic Research and Education	93.143				1,886,290		814,249
Human Genome Research	93.172				125,181		
Research on Healthcare Costs, Quality and Outcomes	93.226		The Research Foundation for SUNY	89055-1163444-URI	69,554		
Mental Health Research Grants	93.242		Brown University	1682	32,515		
Mental Health Research Grants	93.242		Women & Infants Hospital of RI	N/A	35,564		
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243				131,579		
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		Newport County CHMC, Inc	MCA_NMH_URI_2	33,191		
Advanced Nursing Education Workforce Grant Program	93.247				662,033		63,193
Occupational Safety and Health Program	93.262				163,657		15,996
Alcohol Research Programs	93.273				417,614		90,610
Drug Abuse and Addiction Research Programs	93.279				613,312		85,055
Drug Abuse and Addiction Research Programs	93.279		Brown University	1483	195,941		
Drug Abuse and Addiction Research Programs	93.279		Oregon Health & Science University	1011948_URI	144,467		
Drug Abuse and Addiction Research Programs	93.279		Oregon Health & Science University	1016803_URI	45,164		
Drug Abuse and Addiction Research Programs	93.279		University of Oregon	217300C	6,185		
Minority Health and Health Disparities Research	93.307		University of California Riverside	S-001198	59,507		
Trans-NIH Research Support	93.310		Brown University	00001759	12,563		
Trans-NIH Research Support	93.310		Brown University	00001760	15,070		
Nursing Research	93.361				491,894		31,834
Nursing Research	93.361		Yale University	M17A12609(A10935)	85,805		
Cancer Cause and Prevention Research	93.393				17,475		17,475
Cancer Biology Research	93.396				422,428		
Cancer Research Manpower	93.398		Brown University	00000941	13,740		
Child Care and Development Block Grant	93.575		RI Association for the Education of Young Children	3669269	24,149		
Developmental Disabilities Basic Support and Advocacy Grants	93.630				410,824		390,294
Elder Abuse Prevention Interventions Program	93.747		Disabled Persons Protection Commission	Venkatasubramanian_MDPPC	39,972		
Opioid STR	93.788				516,414		
Section 223 Demonstration Programs to Improve Community Mental Health Services	93.829		Newport County CHMC, Inc	MCA_NMH_URI	302,305		
Section 223 Demonstration Programs to Improve Community Mental Health Services	93.829		Thrive Behavioral Health, Inc.	CCBHC-URI	118,040		
Cardiovascular Diseases Research	93.837				218,790		106,988
Cardiovascular Diseases Research	93.837		University of California, Los Angeles	031690-01-URI	134,208		46,334
Lung Diseases Research	93.838				278,655		70,146
Lung Diseases Research	93.838				29,507		13,669
Lung Diseases Research	93.838		Ocean State Research Institute, Inc	122208	19,892		
Lung Diseases Research	93.838		Albert Einstein College of Medicine	310969	243,522		
Blood Diseases and Resources Research	93.839				243,522		

**STATE OF RHODE ISLAND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Fiscal Year Ended June 30, 2021**

Federal Grantor Program Title	Assistance Listing Number	Additional Award Identification Number	Name of Pass-through Entity	Pass-through Entity Award Number	Federal Expenditures	Total Program or Cluster Expenditures	Passed Through to Subrecipients
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		Massachusetts General Hospital	236365	24,536		
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853				1,992,074		398,560
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		Johns Hopkins University	2004741519	62,448		
Allergy and Infectious Diseases Research	93.855				2,322,196		933,581
Allergy and Infectious Diseases Research	93.855		Columbia University	6(GG011896-65)	3,093		
Biomedical Research and Research Training	93.859				3,976,629		1,967,393
Biomedical Research and Research Training	93.859		Brown University	00000938	177,586		
Biomedical Research and Research Training	93.859		Brown University	00001023	20,511		
Biomedical Research and Research Training	93.859		Brown University	00001098	22,356		
Biomedical Research and Research Training	93.859		Brown University	00001441	15,978		
Biomedical Research and Research Training	93.859		Brown University	0001637	50,181		
Biomedical Research and Research Training	93.859		Brown University	00001396	8,634		
Biomedical Research and Research Training	93.859		Yale University	GR108643(CON-80002175)	269,109		
Biomedical Research and Research Training	93.859		Celdara Medical, LLC	CMCho2018	36,297		
Biomedical Research and Research Training	93.859		Rhode Island Hospital	7137384NHW	14,251		
Biomedical Research and Research Training	93.859		Rhode Island Hospital	7137384SJK	29,564		
Biomedical Research and Research Training	93.859		The Miriam Hospital	7147123KLL	14,363		
Child Health and Human Development Extramural Research	93.865				83,426		
Child Health and Human Development Extramural Research	93.865		Boston University	4500002896	37,627		
Child Health and Human Development Extramural Research	93.865		Florida State University	R000002706	35,047		
Aging Research	93.866				247,337		
Aging Research	93.866		The Research Foundation for SUNY	82900	309,346		
Aging Research	93.866		Yale University	GR100954CON80000919	291,928		
Aging Research	93.866		Rhode Island Hospital	701-7137507	71,567		
Research, Prevention, and Education Programs on Lyme Disease in the United States	93.942		Western Connecticut State University	CDC2019A	61,452		
PPHF Geriatric Education Centers	93.969				819,846		195,401
Other Research and Development - Department of Health and Human Services	93.RD	75D30119C05160			144,601		
Other Research and Development - Department of Health and Human Services	93.RD	R01HL135236			342,764		9,845
Other Research and Development - Department of Health and Human Services	93.RD	2R44ES028649-02-001	Enchem Engineering, Inc.	2R44ES028649-02-001	48,512		
Other Research and Development - Department of Health and Human Services	93.RD	7139196DSL	Lifespan	7139196DSL	1,362		
Other Research and Development - Department of Health and Human Services	93.RD	A20-0501-S001	University of California at Davis	A20-0501-S001	80,021		
Other Research and Development - Department of Health and Human Services	93.RD	MCA_NMH_URI_2	Newport County CHMC, Inc	MCA_NMH_URI_2	92,317		
<b>U.S. Department of Homeland Security (DHS)</b>							
Centers for Homeland Security	97.061		University of North Carolina - Chapel Hill	5101662	343,040		
Centers for Homeland Security	97.061		University of North Carolina - Chapel Hill	5117116	66,373		
Centers for Homeland Security	97.061		University of North Carolina - Chapel Hill	5119463	158,172		
Centers for Homeland Security	97.061		Northeastern University	SUB 505035-78059	157,977		
Other Research and Development - Department of Homeland Security	97.RD	S-539-G40001-00-URI	Applied Research Associates	S-539-G40001-00-URI	80,055		
<b>U.S. Agency for International Development (USAID)</b>							
USAID Foreign Assistance for Programs Overseas	98.001				7,143,613		3,103,032
USAID Foreign Assistance for Programs Overseas	98.001		International Union for Conservation	IUCN-Ricci06102019	61,487		
USAID Foreign Assistance for Programs Overseas	98.001		Mississippi State University	19300.312455.04	337,489		
USAID Foreign Assistance for Programs Overseas	98.001		PACT	72068718C00001	426,175		
USAID Foreign Assistance for Programs Overseas	98.001		PACT	265-011929	315,872		
USAID Foreign Assistance for Programs Overseas	98.001		DAI Global LLC	1004343-S21-35515	119		
<b>Total Research and Development Cluster</b>					<b>\$ 79,130,251</b>	<b>\$ 17,302,390</b>	
<b>Total Expenditures of Federal Awards</b>					<b>\$ 8,401,858,790</b>	<b>\$ 580,886,454</b>	

**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 (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 consistent with the specific federal compliance requirements for each program regarding allowable costs and, when applicable, the cost principles contained the Uniform Guidance. Any matching expenditures from non-federal sources are not included in the Schedule.

Programs are generally listed in the Assistance Listing numerical order by federal funding agency. When the Assistance Listing 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). 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 Assistance Listing number (e.g., 15.RD).

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.

The State received COVID-19 pandemic related federal assistance under several programs to address the effects of managing the impact of the global pandemic. The related expenditures to this funding have been identified in the Schedule with “COVID-19” as the additional award identification number.

The State expended some residual federal assistance from the American Recovery and Reinvestment Act of 2009 (ARRA) in fiscal 2021. The related expenditures to this funding have been identified in the Schedule with “ARRA” as the additional award identification number.

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 4 to this Schedule.

**NOTE 2. DE MINIMIS INDIRECT COST RATE**

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. The Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH) and the Department of Public Safety (DPS) elected to use the 10% de minimis rate in FY2021.

**NOTE 3. 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.

<u>Assistance Listing Number</u>	<u>Program</u>	<u>Expenditures of Federal Awards Year Ended June 30, 2021</u>	<u>Loan Outstanding Balance June 30, 2021</u>
11.307	Economic Adjustment Assistance	\$ 9,297,155	\$ 4,900,333
14.117	Mortgage Insurance Homes	363,832,323	N/A
14.189	Qualified Participating Entities (QPE) Risk Sharing	276,569,509	258,828,906
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	13,422,757	8,458,372
14.239	Home Investment Partnerships Program	27,464,544	27,237,784
14.275	Housing Trust Fund	5,408,455	5,355,821
21.011	Capital Magnet Fund	5,427,266	3,554,366
84.038	Federal Perkins Loan Program – Federal Capital Contributions	6,911,239	5,114,953
84.268	Federal Direct Student Loans	109,817,193	N/A
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	2,628,586	1,992,846
93.364	Nursing Student Loans	2,409,060	1,753,706

*Note: Outstanding Loan Balance containing "N/A" indicates no continuing compliance requirements.*

**NOTE 3. LOAN, LOAN GUARANTEE AND INSURANCE PROGRAMS (continued)**

Federal awards which include loan, loan guarantee and insurance programs are presented as follows:

- Economic Adjustment Assistance (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.
- Mortgage Insurance Homes (14.117), a guaranteed/insured mortgage loan program is reported at the value of loans originated or purchased during the fiscal year.
- Other guaranteed/insured mortgage loan programs are reported at the beginning loan balances of the audit period plus loans originated or purchased during the fiscal year: Qualified Participating Entities (QPE) Risk Sharing (14.189); Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii (14.228); Home Investment Partnerships Program (14.239); Housing Trust Fund (14.275); Capital Management Fund (21.011). *Note: the amount of expenditures of federal awards as detailed above for the Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii (14.228) includes non-loan related expenditures of \$4,959,149.*
- Federal Direct Student Loans (84.268) are reported at the value of loans made during the fiscal year.
- Federal Perkins Loan Program – Federal Capital Contributions (84.038), Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students (93.342) and Nursing Student Loans (93.364) are reported at the beginning loan balances of the audit period plus loans made during the year and any administrative cost allowances.

**NOTE 4. 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.

Assistance Listing Number	Program	Expenditures of Federal Awards Year Ended June 30, 2021	Non-Monetary Assistance Year Ended June 30, 2021
10.555	National School Lunch Program	\$ 5,061,454	\$ 4,721,640
10.559	Summer Food Service Program for Children	44,092,461	52,629
39.003	Donation of Federal Surplus Personal Property	4,521,138	4,521,138
93.268	Immunization Cooperative Agreements	21,919,971	14,663,336

Non-Monetary Assistance is presented as follows:

- National School Lunch Program (10.555) and Summer Food Service Program for Children (10.559) are reported at the fair market value of food distributed.
- Donation of Federal Surplus Personal Property (39.003) is reported at the assessed value provided by the federal agency.
- Immunization Cooperative Agreements (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. NON-MONETARY ASSISTANCE (continued)**

During fiscal 2021, the State received donated vaccines, personal protective equipment, including masks, gowns, testing kits from the federal government to address the COVID-19 pandemic. Per federal guidance the value of such amounts is not included in the SEFA for fiscal 2021.

**NOTE 5. REBATES OF PROGRAM EXPENDITURES**

The State received the following program expenditure rebates during fiscal 2021:

<u>Assistance Listing Number</u>	<u>Program</u>	<u>Rebate Amount</u>
10.557	WIC Special Supplemental Nutrition Program for Women, Infants and Children	\$ 2,341,629
93.767	Children's Health Insurance Program (CHIP)	2,167,196
93.778	Medical Assistance Program	99,706,258
93.917	HIV Care Formula Grants	7,455,331

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 2021. Amounts included in the SEFA for WIC and HIV Care Formula Grants include amounts funded by rebates earned as well as direct federal assistance.

**NOTE 6. UNEMPLOYMENT INSURANCE EXPENDITURES**

Expenditures of federal awards for Unemployment Insurance (17.225) represent \$360.3 million funded from the State's account in the federal Unemployment Trust Fund, \$1,730.0 million funded by COVID-19 federal grants (CARES Act), and \$23.2 million funded through other federal grants.

In addition, other Unemployment Insurance benefits of \$47.4 million and \$172.3 million were funded by the Coronavirus Relief Fund (21.019) and Presidential Declared Disaster Assistance to Individuals and Households – Other Needs (97.050), respectively. These expenditures are reported on the Schedule under these Assistance Listing numbers.

**NOTE 7. 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 \$178,364,722.

**NOTE 8. MEDICAL ASSISTANCE PROGRAM – ACCRUED PROGRAM EXPENDITURES**

The Schedule of Expenditures of Federal Awards reports federal expenditures for the Medical Assistance Program (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 for services rendered, which were 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 claim date of service. These rebate credits are claimed on federal reports when received from the drug manufacturer.

**NOTE 9. RECONCILIATION BETWEEN THE STATE’S BASIC FINANCIAL STATEMENTS AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

<b>Total Federal Expenditures Reported in Financial Statements</b>	<b>\$ 8,272,463,189</b>
<b>Additions to Schedule of Expenditures of Federal Awards:</b>	
National School Lunch Program (10.555) – USDA donated food commodities <sup>(a)</sup>	4,721,640
Summer Food Service Program for Children (10.559) – USDA donated food commodities <sup>(a)</sup>	52,629
Federal Donated Surplus Property (39.003) <sup>(a)</sup>	4,521,138
Medicaid (93.778) Health System Transformation Program <sup>(b)</sup>	13,671,872
FEMA Stafford Act (97.036) reimbursement amounts recorded as expenditure credits or escrow liability disbursements <sup>(c)</sup>	14,467,491
<b>Adjustments to SEFA for Prior Period Activity:</b>	
Coronavirus Relief Fund (21.019) – restatement of July 1, 2020 beginning balances <sup>(d)</sup>	(23,669,697)
Medical Assistance Program (93.778) billing recoupment – restatement of July 1, 2020 beginning balances <sup>(e)</sup>	9,826,016
FEMA Stafford Act (97.036) revenues received in fiscal 2021 for expenditures incurred in fiscal 2020 <sup>(f)</sup>	105,804,512
<b>Net Additions to Schedule of Expenditures of Federal Awards</b>	<b>129,395,601</b>
<b>Total Expenditures on Schedule of Expenditures of Federal Awards</b>	<b>\$ 8,401,858,790</b>

<sup>(a)</sup> Non-monetary assistance (Note 4) for National School Lunch Program (10.555), Summer Food Service Program for Children (10.559), and Donation of Federal Surplus Personal Property (39.003) is included in the Schedule of Expenditures of Federal Awards; however, these amounts are not included in the State’s basic financial statements.

**NOTE 9. RECONCILIATION BETWEEN THE STATE'S BASIC FINANCIAL STATEMENTS AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)**

(b) The Health System Transformation Program (HSTP) is funded through regular federal financial participation (FFP) for the Medical Assistance Program (93.778) and specific qualifying expenditures of the State's public institutions of higher education related to the training of students in the health care related fields pursuant to the Designated State Health Programs (DSHP). The State has authority to claim FFP under the DSHP to solely support the goals of the HSTP. The DSHP qualifying expenditures are quantified and reimbursed by the federal government independent of the HSTP expenditures. For financial reporting purposes in the basic financial statements, the DSHP amounts are reported as restricted revenue when drawn (to designate their HSTP restricted use) with the State share of HSTP expenditures funded by that restricted revenue source. For purposes of presentation in the Schedule of Expenditures of Federal Awards, the State share of HSTP expenditures is presented (reclassified) as expenditures of federal awards to recognize the expenditure of the DSHP federal reimbursement to the State.

(c) Amounts reimbursed by FEMA to municipalities and other non-State entities under the FEMA Stafford Act, Public Assistance (PA) Category B (97.036) were received and disbursed by the State; however, for financial reporting purposes, these amounts were not reflected as federal revenues or expenditures. For presentation of the Schedule, these amounts have been included as expenditures of federal awards and amounts passed through to subrecipients.

(d) The State reclassified certain expenditures reimbursed through the Coronavirus Relief Fund (21.019) in fiscal 2020 and these amounts were reflected as adjustments to July 1, 2020 beginning balances (refer to Note 10 of the Basic Financial Statements in *Section A* of this report). Reported expenditures have been reduced on the 2021 Schedule to recognize the reclassification of these funds reported in fiscal 2020.

(e) Medical Assistance Program (93.778) billings were processed for the State-operated Eleanor Slater Hospital in fiscal 2021 for periods of service in fiscal 2020. These amounts were reflected as adjustments to July 1, 2020 beginning balances (refer to Note 10 of the Basic Financial Statements in *Section A* of this report).

(f) The State was reimbursed for eligible COVID-19 related expenditures under the FEMA Stafford Act, Public Assistance (PA) Category B (97.036) in fiscal 2021 for expenditures that were incurred in fiscal 2020. For presentation of the Schedule these amounts have been included in fiscal 2021 as expenditures of federal awards. These amounts were not previously reported on the State's Schedule of Expenditures of Federal Awards in fiscal 2020.

**NOTE 10. IDENTIFICATION OF COVID-RELATED ASSISTANCE**

For the Child Nutrition Cluster, the Schedule includes certain COVID-19/CARES Act expenditures originally reported as non-COVID/CARES Act in fiscal 2020. Non-COVID 19/CARES ACT expenditures included on the fiscal 2021 Schedule have been reduced by the same amounts and therefore, there is no effect on total fiscal 2021 expenditures of federal awards. Following is a summary of those expenditures:

<u>Assistance Listing Number</u>	<u>Additional Award Identification Number</u>	<u>Program</u>	<u>Expenditures of Federal Awards Year Ended June 30, 2021</u>	<u>COVID-19 Related Expenditures Reported in Fiscal 2020</u>
10.553	COVID-19	School Breakfast Program	\$ 646,751	\$ 617,087
10.555	COVID-19	National School Lunch Program	1,854,299	1,796,477
10.556	COVID-19	Special Milk Program for Children	323	292
10.559	COVID-19	Summer Food Service Program for Children	10,255,447	5,856,699



## Auditor's Reports



**Auditor’s Reports**

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# Office of the Auditor General

State of Rhode Island - General Assembly  
Dennis E. Hoyle, CPA - Auditor General

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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:

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 (the State), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the State's basic financial statements and have issued our report thereon dated January 28, 2022. 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 less than 1% of the assets and deferred outflows and the revenues of the governmental activities and less than 1% of the assets and the revenues of the aggregate remaining fund information;
- the Convention Center Authority, a major fund, which represents 37% of the assets and deferred outflows and less than 1% of the revenues of the business-type activities;
- the Ocean State Investment Pool - an investment trust fund, and the HealthSource RI, Rhode Island Higher Education Savings, and ABLE private-purpose trust funds, which collectively represent 29% of the assets and 22% 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.

### **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) as a basis for designing 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.

Finance Committee of the House of Representatives and  
Joint Committee on Legislative Services, General Assembly

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* (Section D), we and the other auditors did identify 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* as findings 2021-002, 2021-003, 2021-004, 2021-005, 2021-009, 2021-022, and 2021-027 to be material weaknesses. Other auditors of the discretely presented component units considered the deficiencies described in the accompanying *Schedule of Findings and Questioned Costs* as findings 2021-031, 2021-033 and 2021-036 to be a material weaknesses.

*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 2021-001, 2021-006, 2021-007, 2021-008, 2021-010, 2021-011, 2021-012, 2021-013, 2021-014, 2021-015, 2021-016, 2021-017, 2021-018, 2021-019, 2021-020, 2021-021, 2021-023, 2021-024, 2021-025, 2021-026, 2021-028, 2021-029, and 2021-037 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 2021-032, 2021-034, and 2021-035 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 disclosed an instance of noncompliance or a matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying *Schedule of Findings and Questioned Costs* as finding 2021-002. Other auditors of the discretely presented component units disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying *Schedule of Findings and Questioned Costs* as finding 2021-030.

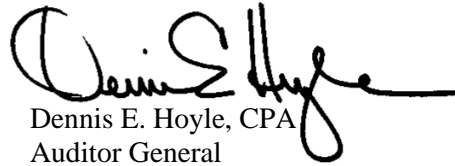
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### State's Response to Findings

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

January 28, 2022 except for Finding 2021-037 regarding the *Schedule of Expenditures of Federal Awards* (Section B) as to which the date is June 28, 2022.



# Office of the Auditor General

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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:

### Report on Compliance for Each Major Federal Program

We have audited the State of Rhode Island's (the State's) 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, 2021.

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.

<b>2021 Major Programs Audited by Other Auditors</b>	
<i>Program Title:</i>	<i>Assistance Listing No.</i>
Home Investment Partnerships Program	14.239
Airport Improvement Program	20.106
Federal Transit Cluster: *	
Federal Transit – Capital Investment Grants	20.500
Federal Transit – Formula Grants	20.507
State of Good Repair Grants Program	20.525
Bus and Bus Facilities Formula Program	20.526
Coronavirus Relief Fund **	21.019
Education Stabilization Fund ***	84.425
Research and Development Cluster	Various
<p>* <i>The Federal Transit Cluster was administered by both the primary government (State) and a component unit (Rhode Island Public Transit Authority).</i></p> <p>** <i>The Coronavirus Relief Fund was administered by the primary government (State) and funds were passed through to a component unit (Rhode Island Commerce Corporation). These pass-through funds were audited by the component unit auditor.</i></p> <p>*** <i>The Education Stabilization Fund program was administered by both the primary government (State) and several component units (University of Rhode Island, Rhode Island College, and Community College of Rhode Island).</i></p>	

Finance Committee of the House of Representatives and  
Joint Committee on Legislative Services, General Assembly

### 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 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 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 Qualified Opinions on Unemployment Insurance, 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:

Assistance Listing No.	Program / Cluster Name	Compliance Requirement	Finding
17.225	Unemployment Insurance	Eligibility	2021-047
		Special Tests and Provisions – UI Program Integrity – Overpayments	2021-048
93.767	Children's Health Insurance Program	Eligibility	2021-068
		Special Tests and Provisions – Managed Care Financial Audit	2021-069
		Special Tests and Provisions – Medicaid Managed Care Organizations – Provider Eligibility	2021-070
93.775 93.777 93.778	Medicaid Cluster	Special Tests and Provisions – Managed Care Financial Audit	2021-069
		Special Tests and Provisions – Medicaid Managed Care Organizations – Provider Eligibility	2021-070

Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those major federal programs.

Finance Committee of the House of Representatives and  
Joint Committee on Legislative Services, General Assembly

### **Qualified Opinions on Unemployment Insurance, 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, Children’s Health Insurance Program, and Medicaid Cluster for the year ended June 30, 2021.

### **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, 2021.

### **Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance, 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 2021-038 and 2021-059. 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 plans 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.

### **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.

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 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.



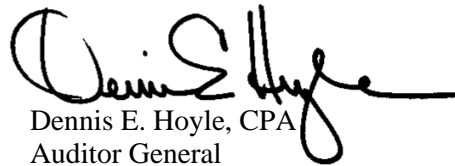
Finance Committee of the House of Representatives and  
Joint Committee on Legislative Services, General Assembly

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 2021-039, 2021-040, 2021-047, 2021-048, 2021-052, 2021-058, 2021-060, 2021-061, 2021-062, 2021-064, 2021-067, 2021-068, 2021-069, 2021-070, 2021-071, and 2021-078 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 2021-038, 2021-041, 2021-042, 2021-043, 2021-044, 2021-045, 2021-046, 2021-049, 2021-050, 2021-051, 2021-053, 2021-054, 2021-055, 2021-056, 2021-057, 2021-063, 2021-065, 2021-066, 2021-072, 2021-073, 2021-074, 2021-075, 2021-076, and 2021-077 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

June 28, 2022

## Schedule of Findings and Questioned Costs



**Schedule of Findings and  
Questioned Costs**

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**Basic Financial Statements**

1) The independent auditor’s report on the basic financial statements expressed the following opinions:

<b><u>Opinion Unit</u></b>	<b><u>Opinion</u></b>
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:

a qualified opinion for the following major programs:

Program	Assistance Listing No.
Unemployment Insurance	17.225
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.

<b>2021 Major Programs</b>	
<b>Program Title:</b>	<b>Assistance Listing No.</b>
Pandemic EBT Food Benefits	10.542
SNAP Cluster:	
Supplemental Nutrition Assistance Program	10.551
State Administrative Matching Grants for the Supplemental Nutrition Assistance 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
Child Nutrition Discretionary Grants Limited Availability	10.579
Home Investment Partnerships Program	14.239
Fish and Wildlife Cluster:	
Sport Fish Restoration	15.605
Wildlife Restoration and Basic Hunter Education	15.611
Crime Victim Assistance	16.575
Unemployment Insurance	17.225
Airport Improvement Program	20.106
Highway Planning and Construction Cluster:	
Highway Planning and Construction	20.205
Recreational Trails	20.219
Federal Transit Cluster:	
Federal Transit – Capital Investment Grants	20.500
Federal Transit – Formula Grants	20.507
State of Good Repair Grants Program	20.525
Bus and Bus Facilities Formula Program	20.526
Coronavirus Relief Fund	21.019
Special Education (IDEA) Cluster:	
Special Education Grants to States	84.027
Special Education Preschool Grants	84.173
Education Stabilization Fund	84.425
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323
Temporary Assistance for Needy Families	93.558
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
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036
Presidential Declared Disaster Assistance to Individuals and Households – Other Needs	97.050
Research and Development Cluster	Various

- 8) The dollar threshold used to distinguish between Type A and Type B programs was \$25,205,576.
- 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:

<b>2021 Major Programs Audited by Other Auditors</b>	
<b>Program Title:</b>	<b>Assistance Listing No.</b>
Home Investment Partnerships Program	14.239
Airport Improvement Program	20.106
Federal Transit Cluster: *	
Federal Transit – Capital Investment Grants	20.500
Federal Transit – Formula Grants	20.507
State of Good Repair Grants Program	20.525
Bus and Bus Facilities Formula Program	20.526
Coronavirus Relief Fund **	21.019
Education Stabilization Fund ***	84.425
Research and Development Cluster	Various
<p>* The Federal Transit Cluster was administered by both the primary government (State) and a component unit (Rhode Island Public Transit Authority).</p> <p>** The Coronavirus Relief Fund was administered by the primary government (State) and funds were passed through to a component unit (Rhode Island Commerce Corporation). These pass-through funds were audited by the component unit auditor.</p> <p>*** The Education Stabilization Fund program was administered by both the primary government (State) and several component units (University of Rhode Island, Rhode Island College, and Community College of Rhode Island).</p>	

**Finding 2021-001**

**(significant deficiency – repeat finding – 2020-001)**

**IMPLEMENTATION OF THE STRATEGIC PLAN FOR CRITICAL FINANCIAL AND ADMINISTRATIVE COMPUTER SYSTEMS**

**Background:** The State’s strategic plan details the need for, and the benefits to be derived from, an enterprise applications modernization effort, highlighting that “the risks of inaction far outweigh the cost of upgrades in capability”. Responses to the State’s Request for Proposals for a new ERP system are currently being evaluated. Funding has been made available through a direct appropriation of \$50 million to the State’s Information Technology Investment Fund for this initiative. Implementation of the strategic plan is essential to ensure that critical legacy financial systems, such as the payroll system, which pose a business continuity risk, will be available to support State operations.

The State is implementing its strategic plan to replace and enhance key statewide financial and administrative systems and is in the process of selecting a software vendor and system integrator. The implementation should focus on ensuring a successful outcome through effective management of critical risks.

**Criteria:** Management needs well-designed financial systems that support comprehensive internal controls over financial reporting, enable organization-wide efficiencies, and promote business continuity. Integrated functionalities support appropriate internal controls and eliminate inefficiencies resulting from multiple systems, duplicate data entry and ineffective communication between systems.

**Condition:** Important functionalities are minimally met through legacy systems, the existing statewide accounting system, and multiple departmental processes without 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 these systems is limited. Many of the needed financial functionalities are interdependent and, consequently, the risk of failed integration is increased absent appropriate strategic planning and sequencing.

With funding now secured, the primary system implementation risks that remain are (1) selecting software and a system integrator that are the best match for the State’s needs, (2) managing the process re-engineering that must be done to align the State’s processes to the software-as-a-service functionalities within the ERP system, and (3) ensuring sufficient subject matter experts are involved in the implementation process to ensure a high likelihood of success.

**Cause:** The State’s current accounting and financial reporting system lacks the integration, functionality, and controls of a comprehensive Enterprise Resource Planning (ERP) system. The State’s human resource and payroll systems are separate applications that utilize outdated technology and are supported by multiple paper-based data collection and approval processes.

**Effect:** Business continuity risks, deficiencies in internal control over financial reporting, and the lack of organization-wide efficiencies exist and are exacerbated due to the lack of an integrated ERP system.

**RECOMMENDATIONS**

- 2021-001a Select software and a system integrator that are the best match for the State’s needs.
- 2021-001b Manage the process re-engineering that must be done to align the State’s processes to the software-as-a-service functionalities within the ERP system.
- 2021-001c Ensure sufficient subject matter experts are involved in the implementation process to ensure a high likelihood of success.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

**Finding 2021-002** (material noncompliance / material weakness / other matter required to be reported by Government Auditing Standards – repeat finding – 2020-002)

**CONTROLS OVER UNEMPLOYMENT INSURANCE BENEFIT PAYMENTS**

See related Federal Award Finding 2021-047.

**Background:** In fiscal 2021, the Department of Labor and Training (DLT) paid more than \$2.3 billion in unemployment insurance benefits. In response to the COVID-19 pandemic, the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act expanded and/or extended unemployment insurance benefits, including providing new benefits to self-employed individuals and independent contractors. Fraudulent claims for unemployment insurance benefits also increased rapidly, concurrent with the overall increase in claims due to the pandemic. This unprecedented increase in fraudulent claims was experienced nationwide and was not unique to Rhode Island.

Controls over the processing of unemployment insurance claims were insufficient to prevent fraudulent unemployment insurance benefit payments. While efforts continue to identify the amount of fraud, fraudulent payments increased over the prior year. Recoveries of fraudulent unemployment insurance benefits have not been recognized or credited to the federal grantor.

The system used by DLT to process unemployment insurance (UI) benefits utilizes outdated technology. This legacy system is mainframe based and programmed in COBOL. In response to the pandemic-related surge in unemployment insurance claims, new “cloud-based” technologies were rapidly deployed to facilitate processing the volume of claims and interactions with claimants; however, the primary claims processing functions were still performed by the legacy system.

**Criteria:** Management is responsible for establishing and maintaining effective internal controls to process and disburse unemployment insurance benefits consistent with federal program guidelines including appropriate procedures to prevent and detect fraudulent payments.

Collections on overpayments due to error or fraud must be reported and credited to the appropriate federal award that funded unemployment insurance benefit.

**Condition:** DLT’s internal control procedures were not sufficiently effective to ensure that unemployment benefit payments were made only to eligible individuals. DLT estimated \$70 million in known fraudulent claims were paid between March 2020 and June 30, 2021. An additional \$480 million of claims are considered suspected fraud. In response to the increase in fraudulent benefit claims, DLT engaged a contractor to assist in the detection of likely fraud which included the use of advanced analytic techniques. Additionally, identity verification controls have recently been implemented (after June 30, 2021) on a pilot basis.



Controls over claims processing were weakened through suspension of the first week waiting period, a simplified application implemented to streamline and expedite processing, and the inability to apply the normal wage verification procedures to claims from self-employed individuals and independent contractors. In December 2020, the federal government required adherence to the documentation of income provisions for self-employed individuals; however, most claimants did not provide the required documentation and benefits continued.

In some limited instances, claw back of amounts paid to fraudulent beneficiaries has been successful; however, collections and claw backs have not been accounted for within the State’s accounting system nor credited back to the appropriate federal award, as applicable.

**Cause:** The large volume of claims stressed an outdated system and the unprecedented economic impact warranted rapid processing of claims. The rapid implementation of new unemployment benefit programs authorized by the CARES Act did not allow sufficient time to employ wage verification and other procedures. Other procedures to verify client identity, prior wages and overall eligibility were also weakened due to the unprecedented volume of claims and new procedures employed to expedite benefit payments. Lastly, the substantial increase in fraudulent claims activity is largely considered to be the result of sustained and targeted efforts impacting many states.

When fraudulent benefits are successfully clawed-back or collected, the funding source for that benefit must be investigated and determined. Most weekly benefit amounts paid were funded by multiple federal awards (e.g., base benefit + supplemental benefit). The investigation and accounting for these amounts has lagged and was pending at June 30, 2021.

**Effect:** Fraudulent unemployment insurance claims have been paid and DLT’s systems require further enhancements to timely identify fraudulent benefit claims prior to disbursement. DLT remains at a critical juncture in developing a strategy to upgrade and modernize its unemployment insurance claims processing systems while ensuring compliance with federal program requirements including the prevention and detection of fraudulent benefit payments.

The impact of successful collections and claw back of fraudulent benefits was not appropriately reflected on the financial statements of the Employment Security Fund or on federal reports. The federal grantor has not been credited for their share of recoveries.

**RECOMMENDATIONS**

- 2021-002a Continue to enhance procedures to timely identify fraudulent claims by strengthening controls within the legacy claims processing system as well as those newly implemented processing functionalities employed to meet the increase in claims activity.
- 2021-002b Implement a strategic plan to address the required modernization of the unemployment benefit claims processing system.
- 2021-002c Research recoveries of overpayments or fraudulent payments and record within the State’s RIFANS accounting system.
- 2021-002d Credit the federal government (appropriate federal award) for amounts recovered.

**Auditee views: *The auditee concurs with this finding – see Corrective Action Plan in Section E.***

**Finding 2021-003**

**(material weakness – repeat finding – 2020-004)**

**MEDICAID PROGRAM COMPLEXITY AFFECTS FINANCIAL REPORTING AND OVERALL PROGRAM CONTROLS**

*See related Federal Award Finding 2021-071.*

**Background:** The complexity of the Medicaid program increases each year through new federal regulations, complex managed care contract settlement provisions, new State initiatives, and continued challenges relating to the State’s integrated human services eligibility system, RIBridges. Medicaid is the State’s single largest program activity - representing just under \$3 billion in expenditures or approximately 35% of the State’s General Fund expenditures. Consequently, the financial aspects of this program are material to the State’s financial reporting objectives. Expenditures for individuals covered under managed care approximate \$2 billion representing the majority of benefit expenditures reported for Medicaid.

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.

**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 is currently being accounted for external to the systemic controls and processes designed within the Medicaid Management Information System (MMIS). The MMIS was developed as a claims processing system over 30 years ago and was not designed to meet the current processing and reporting needs of the State’s managed care programs. Managed care requires a system that can handle capitation adjustments and a more robust adjudication of encounter data submitted by the State’s contracted managed care organizations (MCOs). While the MMIS has been modified over time to handle the disbursement of capitation and the submission of encounter data, it lacks the functionality to completely process and account for managed care activity.

Due to the length of settlement periods, eligibility discrepancies between the claims payment system and the State’s integrated eligibility system, retroactive capitation adjustments, 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.

The following were examples during fiscal 2021 where financial reporting was impacted by the above condition:

- Retroactive rate increases totaling \$86.1 million due to the State’s three MCOs were manually settled based on off-line calculations in fiscal 2021;
- Provider capitation recoupments totaling \$31.9 million representing a fiscal 2020 rate adjustment for the removal of federally qualified health center supplemental payments was processed in fiscal 2021 and supported by off-line calculations;
- Amounts totaling \$2 million due at year-end to the MCOs for vaccination reimbursements not covered under capitation were omitted from year-end accruals;
- EOHHS still lacks processes to validate various “general ledger” adjustments which factor into final MCO contract settlements; and
- Certain year-end manual calculations of liabilities and receivables did not include consistent treatment with how the related expenditures were split amongst the various managed care populations because the year-end calculations are separate and distinct from the systemic processing of the activity during the fiscal year.

While EOHHS’s off-line analysis is making every attempt to accurately and completely settle and account for its managed care activities, systemic controls do not currently support those efforts and control deficiencies exist that continue to impact the State’s financial reporting. With the State currently exploring

procurement for a new MMIS, significant focus should be placed on ensuring that controls over managed care capitation and claiming activity are significantly improved. In the near term, the State should look to utilize federally required audit procedures to improve controls over segments of the managed care settlement process that are currently not being validated.

**Cause:** Ensuring all financial activity is properly and completely recorded in the State’s financial statements is an increasingly complex task. The State does not currently have a system that can process retroactive capitation rate changes and/or changes in participant enrollment category. The current MMIS performs limited edits in encounter data submitted by the plans that are no longer adequate for the size and volume of medical claims covered under capitation.

**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**

- 2021-003a      Formalize a risk assessment process for significant Medicaid related activities to determine where controls and other data validation procedures are required. Delineate areas where audit procedures could be utilized to validate data currently not supported within contract settlement procedures.
- 2021-003b      Develop specific objectives for managed care data processing (i.e., premium and encounter data processing functionality) that will be required of and included in the specifications for the next MMIS.
- 2021-003c      Minimize instances where material financial activities are reliant on manual processes to ensure proper financial reporting.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-004**

**(material weakness – repeat finding – 2020-005)**

**SYSTEM PAYOUTS AND MANUAL DISBURSEMENTS BY THE MEDICAID FISCAL AGENT**

*See related Federal Award Finding 2021-071.*

**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:** The MMIS lacks formalized reporting that details system payouts, manual disbursements, and system recoupments. To the extent that system payouts and recoupments net with current claims processing activity, these transactions result in net cycle activity being posted to the State accounting system which is the basis for the State’s financial and federal reporting functions. When system payouts and recoupments relate to prior period activity, the netting with current period claiming distorts financial reporting. This can negatively impact both financial reporting and federal reporting for the Medicaid and CHIP programs.

The Executive Office of Health and Human Services (EOHHS) authorized more than \$170 million in disbursements (system payouts and manual payments) and \$85 million in system recoupments during fiscal 2021. This financial activity represents transactions outside of the normal claims processing functionality of the Medicaid Management Information System (MMIS). While these types of payments are necessary within Medicaid, the reporting and internal control processes relating to these types of disbursements and recoupments are manual and external to other established control procedures. Such amounts are not easily identified or quantified by the MMIS.

EOHHS has several options to initiate non-claims processing financial activity (i.e., system payouts, manual payouts, system recoupments, and payments through the State accounting system). Policies should be formalized to identify the financial transaction type that best aligns with the nature of the transaction. For example, disbursements for prior-year managed care activity should be made by a manual payment that is recorded independently in the State accounting system rather than a system payout that nets the activity against current capitation payment processing. Yet, a recoupment of an advance made in the prior month is more efficiently accomplished through a system recoupment since they relate to the same financial period (quarter or fiscal year). This consideration should involve consultation with the Office of Accounts and Control to ensure proper financial accounting for the transaction.

The State should ensure that its next MMIS can provide improved processing and accounting for non-claims based payments. New processes should improve the transparency and reporting of the underlying transactions while ensuring that controls are in place to ensure that they are accurately recorded for financial reporting and federal reporting purposes.

**Cause:** System payouts and recoupments often net prior period financial activity with current claims processing activity which can result in misstatements to financial and federal reporting. Insufficient system reporting for system payouts and recoupments increases the risk that material transactions are not identified that require reporting as prior period activity on federal reports and for financial reporting. To the extent that system payouts are not individually recorded in the State Accounting System increases the risk that these transactions are not accounted for properly for financial reporting since they by-pass the State’s centralized review procedures designed to ensure that transactions are recorded in the correct accounts and reflected in the correct fiscal period.

**Effect:** Errors or omissions in financial reporting and federal noncompliance are possible effects of this control deficiency.

**RECOMMENDATIONS**

- 2021-004a Adopt policies that formalize the financial transaction type that best aligns with the nature of the transaction.
- 2021-004b Develop comprehensive reporting for system payouts, manual disbursements, and system recoupments to improve the transparency of these transactions processed by the Medicaid fiscal agent.
- 2021-004c Improve controls over non-claims based financial transactions in the next MMIS to provide for individual reporting and proper financial accounting treatment of non-claims based financial transactions.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

***Finding 2021-005***

***(material weakness – repeat finding – 2020-006)***

**COMPREHENSIVE DOCUMENTATION OF THE STATE’S INTERNAL CONTROL STRUCTURE**

**Background:** The State’s management has responsibility for the design and operation of internal control. The Committee of Sponsoring Organizations (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*. The Government Accountability Office’s “Green Book” - *Standards for Internal Control in the Federal Government* tailors this conceptual framework to the public environment. The “Green Book” is required for federal agencies and is useful to other governments when applying the principles of an internal control framework.

Management focus, training and implementation resources have been insufficient to ensure that departments and agencies are assessing and documenting internal control consistent with management’s overall responsibility for the adequacy of the design and operation of internal control. Internal controls safeguard public resources and support accurate financial reporting.

**Criteria:** 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, management has responsibility for the adequacy of design and operation of an entity’s control structure.

**Condition:** While certain control policies and processes have been documented, there is a 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. 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 risk assessment and monitoring - both essential components of internal control. As the State considers implementing a fully integrated ERP system, which will likely include modification of certain processes and related controls, opportunities exist to evaluate and document amended control procedures consistent with the internal control framework.

**Cause:** Management focus, training and implementation resources have been insufficient to ensure that departments and agencies are adequately documenting their internal control structures inclusive of all elements.

**Effect:** Control weaknesses could exist and go undetected either through inadequate design or through noncompliance resulting from insufficient monitoring.

**RECOMMENDATIONS**

- 2021-005a      Commit additional resources to training and implementation materials to ensure that departments and agencies are adequately documenting their internal controls to reflect an understanding of its required elements in accordance with an acceptable framework such as COSO or the Green Book.
- 2021-005b      Implement an internal control assessment and documentation effort to coincide with the implementation of a fully integrated ERP system.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

***Finding 2021-006*** ***(significant deficiency – repeat finding – 2020-007)***

**EVALUATION OF CONTROLS OVER FUNCTIONS PERFORMED BY EXTERNAL PARTIES**

**Background:** SOC reports are provided by service organizations to assure customers/clients that controls are sufficiently designed and in operation over relevant activities. Management of the user entity should use these reports as part of their overall consideration and documentation of the adequacy of the design and operation of internal control.

**Criteria:** Management has responsibility for the adequacy of design and operation of an entity’s control structure including functions performed by external parties.

**Condition:** The State has made progress by training employees and implementing a uniform SOC report assessment tool to document the consideration of controls at its service organizations. Further training and monitoring are needed to ensure all SOC reports are appropriately and consistently evaluated. Additionally, the State must ensure that relevant complimentary user entity (State) controls identified by service organizations are also in place and operating effectively.

The State can continue to improve its consideration of controls over functions performed by external parties by enhancing use and documentation of Service Organization Control (SOC) reports provided by the external parties. These improvements are necessary and consistent with management’s responsibility for the overall adequacy of the design and operation of internal control.

When SOC reports identify exceptions, evaluation of such matters must be timely and thorough. Any highlighted deviations in control testing that may result in a qualified opinion regarding the design and effectiveness of certain control procedures at the service organization, as well as complementary user entity control considerations should be documented, reviewed, and thoroughly vetted. For fiscal year 2021, documentation support obtained by the State departments utilizing the service organization was incomplete regarding the evaluations of the exceptions and the impact on the State’s overall control procedures.

Continued training is recommended along with monitoring and follow-up with departments and agencies.

**Cause:** The lack of comprehensive documentation and consideration of controls at service organizations that perform critical functions for State government represent a weakness in internal control over financial reporting.



**Effect:** Many functions performed by external parties are material to the State’s overall operations. Deficiencies in the design or operation of controls at service organizations could materially impact the State’s overall controls over financial reporting and compliance.

**RECOMMENDATIONS**

- 2021-006a Enhance training and monitoring to ensure compliance with newly implemented SOC report evaluation procedures.
- 2021-006b Ensure that relevant complimentary user entity (State) controls identified by service organizations are also in place and operating effectively.
- 2021-006c Ensure exceptions and auditor report modifications included in SOC reports are evaluated timely and documented regarding the impact on the State’s overall control procedures.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-007**

*(significant deficiency – repeat finding – 2020-008)*

**MONITORING RIFANS ACCESS PRIVILEGES AND AGENCY APPROVAL HIERARCHIES**

**Background:** Authorizing and monitoring access to RIFANS, the State’s centralized accounting system, is a key control over financial reporting. Access roles for all RIFANS users are assigned and controlled through unique passwords. Ensuring access is consistent and appropriate with each individual’s responsibilities is an important control process. Individuals with “Super User” access require specific monitoring procedures due to their unlimited system access and the ability to potentially override established control procedures.

The State can enhance certain system access controls within the RIFANS statewide accounting system.

**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.

**Condition:** The State’s lack of adequate monitoring of user and administrator access represents a collective weakness in internal control over financial reporting. There 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 by qualified personnel. 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) be logged by the system and reviewed for appropriateness 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 allow specific transaction types and dollar authorization limits. Other transaction-specific authorization controls are managed through workflow paths 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 and system workflows documenting the routing of certain types of transactions.

- *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.

The State created a report designed to monitor changes to the agency hierarchies, authorization thresholds, and other select data fields; however, there were no procedures in place requiring periodic review of the report by DoIT IT Security personnel who possess sufficient knowledge of the IT security protocols to monitor “super user” activity. Further refinements to the report are required to capture all “super user” activity on the system. For example, there are no existing system-enforced policies restricting “super users” from effecting changes to their own level of access or authorization levels.

In conjunction with our audit testing, we noted instances where individuals were granted general ledger approval authority inconsistent with requested access, sometimes at significantly higher levels and longer periods of time than intended. These inconsistencies went undetected and uncorrected during the subsequent review of the ‘Super User’ report. In other instances, we noted that approval of access was not documented if the individual was replacing another with previously approved access. Additionally, the system workflows, which route transactions centrally following agency approval, were not properly documented and in some instances were operating inconsistent with established policies set by the Office of Accounts and Control.

**Cause:** The State did not have sufficient reporting to allow for comprehensive “super user” access monitoring during fiscal 2021. Additionally, the largely manual administration of system access for RIFANS which has a large volume of users diminishes effective controls over system access. The State should ensure the new ERP system being selected contains robust functionality to manage and document user access controls and authorization levels including the activities of super users.

**Effect:** Potential for unauthorized transactions being recorded in RIFANS.

### **RECOMMENDATIONS**

- |           |   |
|-----------|---|
| 2021-007a | Enhance current procedures for reviewing the activities of “super users” (including system administrators) on a scheduled basis to ensure that additions, modifications, and deletions initiated by them are appropriate. Ensure that current documentation of system access and transaction workflows is current and that all access is granted or terminated with appropriate approval. |
| 2021-007b | Ensure the new ERP system being procured contains robust functionality to manage and document user access controls and authorization levels including the activities of super users.  |

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*



**Finding 2021-008**

*(significant deficiency – repeat finding – 2020-009)*

### **COMPREHENSIVE GENERAL LEDGER CONTROLS OVER RECEIVABLES**

**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.

Statewide accounting controls over receivables should be enhanced.

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 only reported 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**

2021-008      Ensure the statewide ERP system in procurement includes appropriate and integrated revenue/receivable functionalities.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-009**

*(material weakness – repeat finding – 2020-010)*

### **CONTROLS OVER FEDERAL PROGRAM FINANCIAL ACTIVITY**

**Background:** Federal programs represented 49% of fiscal 2021 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.

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.

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.

**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.

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.

**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; however, the current FGIS process is ineffective.

Enhanced statewide accounting functionalities that support time reporting/payroll, grants management, and cost allocation are being contemplated through the strategic plan initiative which recognizes the need for a grants management component within the overall planned ERP implementation.

**Effect:** Federal revenue could be overstated and not detected for financial reporting purposes. The share of program costs allocable to funding sources (e.g., general revenue vs. federal) could be misstated.

**RECOMMENDATION**

2021-009 Implement controls to ensure that the allocable share of federal program expenditures is consistent with grant award limitations. Reassess the current FGIS process with the goal of enhancing compliance and effectiveness.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

**Finding 2021-010**

**(significant deficiency –new finding)**

**CONTROLS OVER DEBT-RELATED ACCOUNTING ENTRIES**

**Background:** The State uses the DBC Debt Manager system as a subsidiary ledger to account for long-term debt obligations and related costs. DBC has reporting functionalities that are used to support the manual journal entries prepared by the Office of Accounts and Control that are necessary to reach the appropriate year-end balances for outstanding debt and related deferred costs.

The State can improve controls over the use of the DBC Debt Manager system to support debt-related accounting entries.

**Criteria:** GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities* states that “[f]or current refundings and advance refundings resulting in defeasance of debt reported by governmental activities, business-type activities, and proprietary funds, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.” The net carrying amount is further defined as “the amount due at maturity, adjusted for any unamortized premium or discount related to the old debt, as well as any deferred outflows of resources or deferred inflows of resources associated with a derivative instrument that is an effective hedge of the old debt.”

**Condition:** In April 2021, the State issued approximately \$87.7 million of general obligation bonds to advance refund \$80.7 million of outstanding general obligation bonds. Due to errors in the timing of reports obtained from the DBC Debt Manager system, the journal entries to record the defeasance, including the calculation of deferred amounts on refunding and the change in the balance of bond premiums, were in error. Prior to audit adjustment, deferred premiums were overstated by approximately \$5.0 million, deferred outflows of resources related to the April 2021 advance refunding were overstated by approximately \$5.5 million, and amortization of deferred refunding costs were overstated by approximately \$119,000 at June 30, 2021.

**Cause:** Errors in the timing of reports obtained from the DBC Debt Manager system resulted in incorrect journal entries to record the defeasance, including the calculation of deferred amounts on refunding and the change in the balance of bond premiums.

**Effect:** A material audit adjustment was required to correct year-end balances of long-term debt obligations (net of premiums and/or discounts) and deferred outflows of resources.

**RECOMMENDATIONS**

- 2021-010a Run all DBC reports for year-end related balances with a June 30 effective date to ensure all transactions are accurately captured in the reports.
- 2021-010b Research additional report functionalities within DBC to summarize fiscal year beginning and ending balances of unamortized premiums.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

***Finding 2021-011***

***(significant deficiency – new finding)***

**STATE PROCUREMENT PROCESS AND SUPPORTING DOCUMENTATION**

**Background:** The Chief Purchasing Officer and State Purchasing Agent are responsible for ensuring that procurement is conducted in a competitive manner (when possible) and compliant with state procurement laws, regulations, rules, codes, and procedures.

**Criteria:** All determinations regardless of procurement method are to be in writing and based upon written findings of fact and retained in the purchasing file (*G. L. § 37-2-6*).

The Division of Purchases (Purchasing) should improve enforcement of procurement documentation requirements in accordance with State purchasing regulations. Our audit noted documentation deficiencies for certain procurements included in our sample.

**Condition:** All procurements are required to have the basis of determination documented. In conjunction with the audit of the State’s financial statements, we noted certain instances where required forms were incomplete, absent, or lacked required Purchasing approvals. We also noted where certain procurements were deemed sole source (only one reasonable source for the required goods or services existed), however, the justification as to how it was determined to be the only practical vendor was lacking. In these limited instances, inadequate documentation prevented a complete evaluation of sampled procurements for compliance with State purchasing regulations.

**Cause:** Controls over required documentation being maintained in purchasing files need to be improved. We observed more procurement documentation deficiencies in fiscal 2021 compared to prior years, which may be attributable, in part, to pandemic-induced remote work.

**Effect:** Potential noncompliance with procurement documentation requirements mandated by RI General Laws.

**RECOMMENDATION**

- 2021-011 Reinforce policies, procedures, and controls to ensure that required procurement documentation is maintained in accordance with State policies and procedures.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

**Finding 2021-012**

*(significant deficiency – new finding)*

**PREPARATION OF THE GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**Background:** The State accounting system maintains distinct accounting records to support the preparation of the government-wide (full accrual) financial statements. The full accrual set of books is populated through consolidation entries of the monthly activity from the modified accrual set of books, capital asset transactions throughout the fiscal year, and conversion entries to record noncurrent assets and liabilities and to reclassify fund-level activity as needed.

Procedures for recording transactions included in the government-wide financial statements can be improved.

**Criteria:** Trial balances from the accounting system should not require significant modification to generate accurate financial statements. Controls should be operational to ensure that all transaction activity is recorded in both sets of books and required adjustments and updates are consistently made. Preparation of the government-wide financial statements should include adequate review to ensure results are consistent with expectations.

**Condition:** The fiscal 2021 draft government-wide financial statements required substantial adjustment prior to finalization. Some of these audit adjustments were significant and duplicated prior adjustments made to the governmental fund financial statements.

There are no procedures in place to review and reconcile the consolidation entries for accuracy and completeness. Consolidation of modified accrual transactions to the full accrual set of books resulted in immaterial but problematic variances in fiscal 2021. These differences were not identified by the Office of Accounts and Control prior to the preparation of government-wide financial statements.

Reconciliations, included as a required component of the basic financial statements, identify and explain the differences between the government-wide and fund level financial statements. These reconciliations are not prepared timely nor sufficiently detailed to detect or prevent misclassifications.

Due in part to time limitations, the draft government-wide financial statements were not sufficiently reviewed for consistency with expectations and to identify errors or misclassifications.

The State should consider the potential benefits of implementing a different conversion model in preparing the government-wide financial statements compared to the current method of preparation.

**Cause:** There is a high level of reliance placed upon system-reported accounting data without adequate analysis of the results or other procedures to ensure that required adjustments and changes are made consistently and accurately between the two sets of books.

**Effect:** Without the required audit adjustments, the State’s financial statements could have been materially misstated.

**RECOMMENDATION**

2021-012      Enhance procedures for preparing the government-wide financial statements to ensure consistent and accurate recording of transaction activity. Consider adapting procedures to integrate the conversion method of preparation.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-013**

*(significant deficiency –new finding)*

**RECONCILIATION OF CORONAVIRUS RELIEF FUND AND CONTROLS TO ENSURE EXPENDITURES WERE NOT REIMBURSED FROM MULTIPLE FEDERAL FUNDING SOURCES**

**Background:** The State received an unprecedented amount of federal assistance to respond to the effects of the global pandemic including \$1.25 billion for the Coronavirus Relief Fund (CRF) pursuant to the CARES Act. Certain costs were reimbursable under multiple programs and federal guidance was continually evolving which resulted in changing direction as to costs to be applied to specific federal awards. In fiscal 2021, the State expended approximately \$967 million in CRF funds. CRF funds were reflected as unearned revenue until expended for valid purposes.

A variance of \$2.5 million existed between the balance of the unexpended CRF and the total federal award less expenditures through June 30, 2021. Reconciliations should be completed to ensure eligible expenditures were not reimbursed from more than one funding source.

**Criteria:** An eligible program cost can only be reimbursed from one federal award. A reconciliation should be completed to demonstrate that qualifying expenditures were only reimbursed from one federal award.

The balance of the unexpended CRF should be equal to the original federal award less cumulative CRF expenditures.

**Condition:** There was an unreconciled difference between the residual balance in the CRF escrow liability account and total cumulative expenditures recorded for CRF as of June 30, 2021. Prior to audit adjustment, the difference totaled \$2.5 million.

Controls were also insufficient to ensure that costs were not reimbursed from more than one federal award. Reconciliations to adequately identify any potential duplicate reimbursement are incomplete.

**Cause:** Due to the rapid response required during the pandemic, the existence of multiple federal funding sources, and continually evolving federal guidance, costs were moved in the accounting system to various funding sources which increased the risk that a cost could be reimbursed from more than one federal award.

**Effect:** Potential misstatement of CRF and other federal program reported expenditures.

**RECOMMENDATIONS**

- 2021-013a      Resolve unreconciled differences between CRF expenditures and activity in the CRF unearned revenue account.
- 2021-013b      Complete reconciliations to demonstrate that eligible COVID program costs were not reimbursed from more than one federal funding source.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*



**Finding 2021-014**

*(significant deficiency – new finding)*

**ACCOUNTING FOR COMPENSATED ABSENCES LIABILITIES**

**Background:** Liabilities for compensated absences (e.g., accrued vacation, sick and compensatory time) must be reported on the State’s full accrual financial statements.

The process to record the liability for compensated absences can be enhanced by using a combination of actual data when readily available and estimates where appropriate.

**Criteria:** Liabilities must be measured at the balance sheet date reflecting employee balances for accrued but unused leave using current salary rates. An estimate of the current vs. long-term portion of the liability is needed for presentation on the Statement of Net Position.

**Condition:** Calculation of the compensated absence liability involves a large volume of employee specific data and requires estimates for amounts only paid at retirement (unused sick leave) for eligible individuals, as well as when the liability will be relieved by discharge of time by the employees. Additionally, during the pandemic employees could earn compensatory time and be eligible for payment in certain instances. The compensatory time balances are maintained independent of the statewide payroll system which accumulates other annual leave and sick time balances and consequently were not included in the liability calculation at June 30, 2021.

To streamline the calculations of these balances as part of the annual financial reporting process, the Office of Accounts and Control moved towards an estimation process whereby the liability is calculated as a percentage of annual payroll expense based on a five-year average.

A portion of the liability can be easily calculated using actual employee balances at fiscal year end and we recommend that actual data be used rather than estimated data for this portion of the liability. Estimates are appropriate for the portion of unused sick time that may be paid at retirement and for estimating both the current and long-term portions of the liability.

**Cause:** The State maintains IT security policies and procedures; however, they are not regularly updated and appropriately communicated with State agencies.

**Effect:** Balances reported on the financial statements may not accurately reflect the State’s liability for compensated absences.

**RECOMMENDATIONS**

- 2021-014a Utilize actual data to calculate the compensated absence liability when readily available and use estimates for the remaining portion (sick leave payable upon retirement and the current and long-term portions of the overall liability).
- 2021-014b Segregate the vacation and sick leave portions of amounts paid at retirement to facilitate developing reliable estimates of the liability for sick time eligible for payment at retirement.

**Auditee views:** *The auditee partially disagrees with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-015**

*(significant deficiency – new finding)*

**VOLUME OF ACCOUNTING SYSTEM JOURNAL ENTRIES**

**Background:** More than 10,000 journal entries were processed during fiscal 2021 in the RIFANS accounting system. An additional 35,000 journal entries were used to record receipts/revenues.

**Criteria:** Initiation and approval of journal entries is typically restricted to a small number of higher-level accounting staff to record specific financial reporting related entries or to make corrections.

There is an excessive volume of journal entries recorded within the centralized accounting system. This volume weakens controls over the appropriate authorization and classification of expenditures and limits transparency regarding the underlying primary expenditure transactions.

**Condition:** The volume of journal entries continues to increase due to the inability of the current accounting system to allocate costs to multiple programs and activities. In addition, the significant increase in federal awards provided to address pandemic related costs increased the volume of journal entries as costs were moved to the most appropriate funding source.

Additionally, RIFANS lacks any receipt/revenue functionality and consequently, receipts/revenues are recorded through journal entries.

Journal entries typically are considered higher risk from an internal control perspective as approval level controls require understanding and appropriate review of complex transactions to be effective. As the volume increases the time to adequately review and approve what are often material transactions also increases which threatens the effectiveness of control procedures. The approval process is also dependent on various approval hierarchies which we have not found to be operationally effective (see Finding 2021-007). Additionally, see Finding 2021-017 *Material Audit Adjustments*.

**Cause:** Insufficient cost allocation functionality in the current accounting system necessitates a high level of journal entries to effect allocation of costs. Since accounting personnel in all departments and agencies need to process receipts through journal entries, the ability to initiate and approve journal entries is more widespread than would be typically seen in most large accounting systems.

As the State prepares to select an ERP system to replace RIFANS, one of the objectives should be to significantly reduce the volume of journal entries required to record and adjust financial activity.

**Effect:** Controls are weakened through the high volume of high-dollar transactions that are recorded through journal entries which increase the possibility that a misstatement could occur and not be detected in the normal course of operations.

**RECOMMENDATIONS**

- 2021-015a      Ensure the statewide ERP (in procurement) includes appropriate cost allocation, including payroll distributions and an integrated revenue/receipt functionality to significantly reduce the volume of journal entries needed to maintain the accounting system and support financial reporting.
- 2021-015b      Enhance review and oversight of material journal entries to ensure appropriate recording of transactions and to avoid misstatement of the financial statements.

**Auditee views:** *The auditee partially disagrees with this finding – see Corrective Action Plan in Section E.*



**Finding 2021-016**

*(significant deficiency – new finding)*

**THIRD-PARTY INSURER RECOVERIES FOR VACCINE ADMINISTRATION AND COVID TESTING**

**Background:** The State implemented statewide COVID-19 testing in March 2020 in response to the public health emergency. Subsequently, the State began to seek reimbursement from health insurers for covered individuals. These reimbursement efforts have been identified and tracked manually. The State needs to improve controls over these receivables to ensure the accounting is appropriate and recoveries are credited to the original funding source (e.g., federal grants). Receivables for amounts billed to insurers are not currently recorded in the State’s accounting system.

Third-party insurance reimbursements for COVID testing totaling \$3.2 million on June 30, 2021 are pending (1) credit to the federal government for previously reimbursed costs or (2) recognition as general revenues. Other third-party insurance recoveries that are in process have not been recognized as receivables, revenue, or amounts due to the federal government.

**Criteria:** Costs and expenditures should be recognized net of applicable credits. When recoveries are obtained for costs previously reimbursed by federal awards, amounts should be credited back to the federal government for its applicable share.

**Condition:** Receipts from third-party insurers for COVID testing were deposited in an escrow account pending research and a decision regarding how to credit the federal government for their proportionate share and the criteria to record general revenues, if any. The balance in the escrow account at June 30, 2021 totaled \$3.2 million.

COVID vaccine administration during fiscal 2021 was complex due to costs shared in multiple arrangements including a vendor contract that provided for potential residual payment to the State if insurance recoveries exceeded the actual costs of vaccine administration. No estimate was made for potential insurance recoveries for vaccine administration.

**Cause:** COVID testing costs were reimbursed through at least three separate federal awards and consequently, determining the appropriate amounts to credit to each program was challenging. Vaccine administration was similarly funded by multiple sources.

**Effect:** Credits to federal programs have not been applied for third party insurer recoveries. Other amounts receivable from third party insurers may have not been recognized and reflected on the State’s financial statements.

**RECOMMENDATIONS**

- 2021-016a Improve accounting controls over COVID-19 testing receivables to ensure completeness of billing and collections and appropriate crediting to the original funding source, where applicable.
- 2021-016b Assess any amounts due to the State for third-party reimbursement for vaccine administration or from contracts with vendors who administered vaccines and obtained the right to bill insurers for vaccine administration.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2020-017**

*(significant deficiency – new finding)*

**MATERIAL AUDIT ADJUSTMENTS**

**Background:** Generally accepted auditing standards require the need for material audit adjustments to be considered a control deficiency.

We proposed multiple material audit adjustments during our audit of the State’s fiscal 2021 financial statements.

**Criteria:** Material audit adjustments are likely indicative of weaknesses in controls over the preparation of financial statements.

**Condition:** We proposed multiple material audit adjustments deemed necessary to fairly present the State’s financial statements in accordance with generally accepted accounting principles.

**Cause:** Audit adjustments resulted from (1) unusual transactions during the fiscal year, (2) unusual and complicated accounting challenges caused by the influx of federal awards to fund pandemic related costs, (3) agency and department level staffing challenges, and (4) a high volume of journal entries in the current and prior years which require attention as to reversing and non-reversing status.

Additionally, multiple audit adjustments were required for the activities of the Department of Behavioral Health, Development Disabilities and Hospitals as described below:

- department expenditures were overstated by \$11 million for fiscal 2021 due to an improper reversal of an adjustment from the prior year that went undetected;
- accruals were recorded incorrectly;
- accruals for final rate settlements for the state-operated Eleanor Slater Hospital (ESH) and State-operated Group Homes were initially omitted;
- hospital billings to Medicare ceased during the year and any potential recovery was not quantified;
- recognition of the patient share of room and board had not been recognized in fiscal 2021; and
- significant amounts of ESH claiming to Medicaid, processed in fiscal 2022 for prior periods, required restatement to a prior period and accrual at June 30, 2021 to properly classify the underlying reimbursements to the proper periods.

**Effect:** The State’s financial statements could have been misstated without the required audit adjustments.

**RECOMMENDATION**

2021-017      Enhance oversight of material and complex journal entries to decrease the risk of misstatement of the financial statements.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-018**

*(significant deficiency –new finding)*

**TAXES RECEIVABLE**

**Background:** Processing of returns generates taxpayer billings in certain situations. Taxpayers that file and pay taxes in multiple jurisdictions must file an apportionment schedule with their tax return. When filing electronically and the apportionment schedule is missing, the return is rejected.

Taxes receivable required adjustment at year end due to timing differences and the inclusion of some invalid amounts.

When filed manually without the apportionment schedule all income is apportioned to Rhode Island. This generates a receivable for tax purportedly, but likely inappropriately, due.

Tax returns for large businesses are reviewed by tax personnel before they are posted to the taxpayer’s account. This review can take several weeks to months and may substantially change the amount due to or from the taxpayer.

**Criteria:** Taxes receivable should represent valid receivables net of an appropriate allowance for uncollectible amounts.

**Condition:** Certain taxes receivable balances were overstated (prior to adjustment) by taxpayer error or other errors that were corrected and adjusted soon after fiscal year end.

Receivables were generated for returns that lacked apportionment schedules thereby attributing all income to Rhode Island. Controls could be enhanced by mandating electronic filing which includes edits to detect missing schedules and information.

**Cause:** Certain large receivable balances were not reviewed prior to year-end and included in tax receivable information provided for financial reporting purposes.

By Division of Taxation policy, if a corporation does not file an apportionment form with its tax return, the tax system adjusts the return to assign all income to the state and adjusts the tax due accordingly.

**Effect:** Taxes receivable were overstated (prior to adjustment) by a total of \$1.2 million (net after allowance for doubtful accounts). The balance was adjusted for financial reporting purposes.

**RECOMMENDATIONS**

- 2021-018a Review large tax receivable balances at June 30 and remove any balances that are not valid receivables due to adjustment soon after year end.
- 2021-018b Adjust tax receivable balances due to the incorrect or non-filing of an apportionment schedule. Consider legislative remedy to mandate electronic filing which will enhance control over the completeness of filed returns.

**Auditee views:** *The auditee disagrees with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-019**

*(significant deficiency –new finding)*

**RIFANS – TIMELY APPLICATION SOFTWARE UPDATES**

**Background:** Software developers provide customers with periodic updates to address or correct known system glitches, security deficiencies, or to improve system functionality.

Failure to install timely updates to the application software results in increased security risk and uncorrected software functionality issues identified by the software developer.

**Criteria:** Software updates should be installed timely to ensure continued system functionality and to maintain system security features. When software updates cannot be effectively installed, notification should be made to key application users and information technology personnel to assess options and evaluate related risks.

**Condition:** During fiscal 2021, RIFANS software updates were installed in January 2021; however, subsequent updates through February 2022 have not been installed. Quarterly updates (“patches”) are provided by the software vendor and consequently the RIFANS is four “patch sets” behind.

**Cause:** RIFANS system configuration, excessive software customization, and lack of technical personnel, add complexity to the update installation process. No required notification process exists to alert key application users that the updates could not be successfully installed or to trigger an appropriate risk evaluation/mitigation consideration process. Despite the State actively procuring a new statewide ERP system, the existing RIFANS accounting system will be in use for multiple years even under the most aggressive implementation schedule and consequently must be adequately maintained.

**Effect:** Risk was enhanced by the failure to install updates on a timely basis and because no required notification process exists to alert key application users and information technology personnel to assess options and evaluate related risks.

**RECOMMENDATIONS**

- 2021-019a Install software updates timely and at required intervals to ensure continued system operating functionality and maintain system security.
- 2021-019b 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.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-020**

*(significant deficiency – previously reported as Management Comment 2020-04 and Finding 2019-006)*

**PERIODIC INVENTORY OF CAPITAL ASSETS**

**Background:** The Office of Accounts and Control requires departments to perform agency-specific inventory verification for capital assets on a three-year cycle. Inventory results are reported to the Office of Accounts and Control which prompts any required accounting adjustments.

The processes followed for periodic physical inventories of capital assets and the evaluation of inventory results can be enhanced to ensure that accurate capital asset records are maintained.

**Criteria:** Periodic physical capital asset inventories are a best-practice and important control procedure to ensure the accuracy of the State’s capital asset accounting records.

**Condition:** A fiscal 2021 capital asset inventory conducted by the Department of Transportation identified approximately 40 capitalizable assets (mostly outdated furniture and computer equipment with historical acquisition costs above the State’s capitalization threshold), that could not be located including a dump truck acquired in fiscal 2016 for \$261,000. As a result of the RIDOT inventory results, the Office of Accounts and Control removed the assets from the capital asset records. Documentation provided to the Office of Accounts and Control included the required certification by the RIDOT Director.

We subsequently found that the truck had been mis-identified as disposed which led to the erroneous “asset not found” status. The truck was removed from service but located on State property awaiting to be sold. Material capital assets reported as “asset not found” should prompt robust inquiry and investigation by both the Department and the Office of Accounts and Control before the asset is written-off or removed from the capital asset inventory system.

**Cause:** Cyclical departmental inventories are conducted without on-site participation by the Office of Accounts and Control to ensure completeness and consistency. Inventory results are forwarded and accepted without sufficient review and inquiry before adjusting the State’s capital asset records. Over-reliance is placed on the certification provided by the Departments when assets are not located without sufficient inquiry and investigation for material assets reported as not found.

**Effect:** Capital asset records and the State’s financial statements could be misstated. Physical control of capital assets is diminished when there is insufficient follow-up and consequence for lost, misplaced, or misclassified material assets.

**RECOMMENDATIONS**

- 2021-020a      Include staff from Office of Accounts and Control on the team performing each cyclical, departmental capital asset inventory.
- 2021-020b      Enhance review and inquiry for material capital assets reported as not found before assets are removed from the State’s capital asset inventory records.

**Auditee views:** *The auditee disagrees with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-021**

*(significant deficiency – repeat finding – 2020-012)*

**DIVISION OF INFORMATION TECHNOLOGY – DISASTER RECOVERY TESTING**

**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).

The State should formalize identification of major systems, standardize application testing, and incorporate business continuity planning within its overall disaster recovery testing.

**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:** A list of major systems has been developed, but the restoration priority needs to be formalized and communicated to State agencies. In addition, further progress is needed to test all critical functionality of major systems and their applications. During the fiscal 2021 test, the system and database were recovered for critical applications, however, the State did not fully validate the application functionality.

**Cause:** While major systems to be recovered have been identified, prioritization has not been formalized. Sufficient time has not been allotted to test all systems thoroughly. In addition, a repeatable level of application testing has not been formally established nor has business continuity planning been incorporated into disaster recovery testing.

**Effect:** Incomplete disaster recovery testing reduces the assurance that all mission critical systems can be restored, should a disaster disable or suspend operations.

### **RECOMMENDATIONS**

- 2021-021a      Formalize and communicate the restoration priority of major applications and communicate the priority order with the affected State agencies within disaster recovery tests at the State’s designated disaster recovery site.
- 2021-021b      Establish a repeatable level of application testing and incorporate business continuity planning within periodic disaster recovery testing.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

### ***Finding 2021-022***

***(material weakness – repeat finding – 2020-013)***

### **DIVISION OF INFORMATION TECHNOLOGY – PROGRAM CHANGE CONTROLS**

**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.

While some agencies have formally implemented program change controls, a standardized statewide approach has not been implemented.

**Criteria:** The State’s change management process should be standardized so that all movement of code, modifications, 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.

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.

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 led to inconsistent methods, as well as noncompliance and circumvention of DoIT’s change control policy and procedures. In several instances, automated change control system procedures were lacking 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 semi-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**

- 2021-022a      Develop and implement procedures detailing specific requirements for program change control and disseminate and train DoIT support staff in its proper execution.
- 2021-022b      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 2021-023**

**(significant deficiency – repeat finding – 2020-014)**

**DIVISION OF INFORMATION TECHNOLOGY – COMPREHENSIVE INFORMATION SYSTEMS  
SECURITY POLICIES AND PROCEDURES AND PERIODIC RISK ASSESSMENT**

*See related Federal Award Finding 2021-040.*

**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.

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 risk assessments to identify if mission critical systems comply with IT policies and procedures. A formal comprehensive risk-based approach to identify, prioritize, and manage DoIT infrastructure hardware and software improvements will help to maximize the effect of security upgrades.

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. Recent cybersecurity attacks demonstrate the ongoing need to periodically assess the technology infrastructure for threats. During our audit we focused on the following mission critical systems due to their impact on the State’s financial reporting: RIFANS, STAARS, RIBridges, MMIS, DMV- RIMS, and DLT benefit and revenue systems. We also reviewed the State’s network security which is critical to the State’s operations and can negatively impact application security if not maintained at an acceptable industry level standard. Our detailed findings and recommendations have been communicated confidentially since they involve security matters; however, those findings generally support the overall recommendations expressed in this finding.

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. Recent cybersecurity attacks demonstrate the ongoing need to periodically assess the technology infrastructure for threats. During our audit we focused on the following mission critical systems due to their impact on the State’s financial reporting: RIFANS, STAARS, RIBridges, MMIS, DMV- RIMS, and DLT benefit and revenue systems. We also reviewed the State’s network security which is critical to the State’s operations and can negatively impact application security if not maintained at an acceptable industry level standard. Our detailed findings and recommendations have been communicated confidentially since they involve security matters; however, those findings generally support the overall recommendations expressed in this finding.

**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).

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.

Assessments of compliance to IT policies and procedures for all critical IT applications should be performed on a periodic basis as part of the risk assessment.

IT best practices require updates and patches be implemented timely as recommended by software vendors to ensure continued security and operational integrity.



**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 formalized security risk assessments (or updates) on a cyclical basis to determine whether its IT systems (applications, networks, etc.) comply with State IT security policies and procedures.

Due to the size and complexity of systems (and related infrastructure) within State government, a risk-based approach should be employed where those systems deemed most critical, or most at risk, are prioritized. Further, a formalized risk assessment will ensure that risks deemed most critical (to operations and security) are mitigated in a timely manner.

The State should make continued use of external system assessments and reviews to complement on-going risk assessment monitoring. When State systems are operated by external parties or interface with external processing entities, these entities often provide Service Organization Controls (SOC) reports, which describe key controls within the application or organization and testing of the operational effectiveness of those controls. These reports should be accumulated and reviewed within DoIT as part of a risk-based approach to assessing and ensuring IT security compliance. Any user-entity controls identified in the SOC reports should be considered, evaluated, and documented. This may assist in expanding coverage of the State's many systems considering the minimal resources allocated to this function.

The State has insufficient resources allocated to timely evaluate and apply patches and updates to ensure continued security and operational integrity. As a result, updates and patches are not always implemented in a timely manner.

A large number of initiatives are either being planned or implemented to upgrade/enhance manageability and security but without a formal risk-based prioritization. A formalized plan should include risks by priority level, a corrective action or remediation plan, and anticipated costs and resources so that State management can adequately plan to address critical areas in a timely manner. The State should consider external resources to expedite the completion of this formalized assessment. Layering this effort on the State resources responsible for maintaining current operations and security is not practical.

**Cause:** The State maintains IT security policies and procedures; however, they are not regularly updated and appropriately communicated with State agencies. The evaluation of agency compliance with IT security policies and procedures needs improvement.

Policy and practice to perform information security risk assessments has improved, however, such efforts need to be formalized and expedited to ensure that critical issues are being mitigated in a timely manner.

Current resources are insufficient to maintain certain mission critical systems and information system security for an enterprise the size of the State.

**Effect:** Critical systems may be exposed to security vulnerabilities and cyber-attacks when comprehensive information security risk assessments are not performed routinely. This could impact the State's ability to ensure continued operation of mission critical systems.

Without a formal risk-based prioritization approach, ensuring that resources (funding and personnel) required to support the number of system implementations and security monitoring and improvements in process at any one time will be difficult to manage. Further, insufficient resources will increase the chances of project delay and failure as well as impacting the State's ability to manage the continuity and security of existing IT operations.

**RECOMMENDATIONS**

- 2021-023a 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 with particular emphasis on keeping patches and versioning current to minimize cybersecurity risk.
- 2021-023b Perform formalized risk assessments at least once every three years (with annual updates to adjust security priorities) with the results documented and communicated to management for action. Contract for the performance of IT security compliance reviews and make use of available Service Organization Control reports to extend IT security monitoring of critical systems.
- 2021-023c Formalize a 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. Assign each project a likelihood and impact risk rating and use as a factor to determine the prioritization of projects. Review project risk ratings at least once a year and update as needed. Use the plan to guide required funding and staffing to address significant priorities in a timely manner.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

**Finding 2021-024**

**(significant deficiency – repeat finding – 2020-016)**

**DIVISION OF MOTOR VEHICLES – REVENUES COLLECTED FOR USE WITHIN THE INTERMODAL SURFACE TRANSPORTATION (IST) FUND**

**Background:** In fiscal 2021, the DMV collected \$106 million in revenues (excluding sales taxes) of which \$86 million was remitted to the IST Fund’s Highway Maintenance Account.

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.

**Criteria:** DMV 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:** DMV 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 Chapter 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. We identified the following control deficiencies:

- There is no “cross-walk” of the fee structure identified by the RI General Laws for licenses, registrations, surcharges, etc. and how the DMV computer system is programmed to identify such amounts.
- The current reconciliation performed between RIFANS and DMV’s RIMS does not include all fees collected by the DMV.

- Manual write offs are not recorded in RIMS; they are maintained outside of the system. Manual write offs should be recorded within RIMS to maintain a log of the adjustments and to facilitate RIMS/RIFANS reconciliation.
- Deposit date within the RIMS system is pre-populated – the date should reflect the actual deposit date to allow matching RIMS activity to RIFANS receipt entries.

**Cause:** The DMV’s focus has been on successful system implementation, while using the system for enhanced monitoring of compliance with statutory revenue requirements and enhancing the control environment has not been fully explored.

**Effect:** Controls to ensure the completeness of the DMV revenues earmarked for transportation purposes within the IST Fund are ineffective.

**RECOMMENDATIONS**

- 2021-024a Enhance the monthly and annual reconciliations between RIFANS and RIMS, to include all RIFANS revenue accounts to ensure the data in RIMS supports the revenue recorded in RIFANS.
- 2021-024b Create a crosswalk between the fees charged in RIMS and the section of the Rhode Island General Laws authorizing the fee.
- 2021-024c Record the actual deposit date in the RIMS deposit date field.

**Auditee views:** *The auditee partially disagrees with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-025** (significant deficiency – repeat finding – 2020-017)

**DIVISION OF MOTOR VEHICLES – SECURITY SYSTEM PLAN – RIMS**

**Criteria:** 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. 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.”

The Division’s system security approach can be further improved by including additional critical system security requirements.

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 such as database logging and monitoring.

Proper Access Management is essential to both protect and maintain the integrity of the DMV data stored within the RIMS system. Part of this function is to ensure the timely adjustment of access privileges or removal of system access altogether for RIMS users who either transfer or terminate employment with the DMV.

**Condition:** A system security plan was adopted in fiscal 2020. However, additional steps are needed to provide a comprehensive approach to address critical system security requirements which include:

- Assigning a senior information security officer;
- Maintaining a sensitive data inventory for the DMV RIMS database;
- Logging and monitoring the database for access to sensitive data; and
- Implementing formal incident response training (such as handling a data breach) for employees. An analysis of 2,073 RIMS users determined that four users did not have their access removed in a timely manner after departing. DMV administration indicated that they perform an annual sweep for access that should be removed; however, an annual review is insufficient to appropriately limit the risk of unauthorized access.

**Cause:** Additional focus is needed on the key elements of a well-designed information security program.

**Effect:** 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.

Formal Incident Response training is essential so that all staff are clear on their roles and the steps to be taken in the event of an IT security incident (e.g., data breach).

### **RECOMMENDATIONS**

- |           |   |
|-----------|---|
| 2021-025a | Develop a sensitive data inventory for the RIMS system to identify sensitive data elements needing greater protection.  |
| 2021-025b | Implement RIMS database logging and monitoring for sensitive data.  |
| 2021-025c | Conduct formal incident response training for DMV staff.  |
| 2021-025d | Enhance controls and timeframes to ensure prompt termination of system access when employees leave or change functions. Document timely reviews of access privileges. |

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-026**

*(significant deficiency – repeat finding – 2020-018)*

### **INTERMODAL SURFACE TRANSPORTATION FUND – FINANCIAL REPORTING**

**Background:** The Intermodal Surface Transportation (IST) Fund, a special revenue fund, accounts for transportation related activities of the State, including the federal highway construction program, transportation bond proceeds, designated revenues collected by the Division of Motor Vehicles and toll revenues.

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.

**Criteria:** Controls over the preparation of financial statements should ensure consistent and accurate reporting of fund activity in accordance with generally accepted accounting principles. Fund balance components must reflect 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:** We identified deficiencies in controls over the presentation of fund balance. RIDOT posts journal entries at fiscal year end to allocate the fund balance to the correct accounts within the general ledger, which then supports the fund balance categorization requirements of generally accepted accounting principles. One journal entry was misposted which understated/overstated components of fund balance by \$3.3 million.

Due to the multiple computer systems used by RIDOT the department must identify accounts payable within each subsystem which caused accounts payable and expenditures to be overstated by \$7.9 million and a related overstatement of federal revenue and due from the federal government by \$3.5 million. Transfers from the IST Fund to the General Fund and RIPTA related to the Highway Maintenance Account were understated by \$1.2 million and \$0.3 million, respectively.

**Cause:** The presentation of fund balance components is more of a manual rather than system-controlled process and errors can occur and not be detected. The use of multiple 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 record accounts payable, a process susceptible to error.

**Effect:** Account balances within the IST financial statements could be misstated.

**RECOMMENDATIONS**

- |           |   |
|-----------|---|
| 2021-026a | 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. Perform a complete reconciliation of activity by funding source to the fund balance components included on the financial statements. |
| 2021-026b | Reassess 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.  |
| 2021-026c | Enhance controls to ensure that 5% of Highway Maintenance Account revenues are transferred to the General Fund and RIPTA as required by law.  |

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-027**

**(material weakness – repeat finding – 2020-019)**

**TRANSPORTATION INFRASTRUCTURE REPORTING**

**Background:** RIDOT enhanced its process to identify transportation infrastructure assets which 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.

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.

Projects classified as infrastructure are assigned to nine infrastructure codes established to identify the infrastructure type (road, bridge, etc.) and the estimated useful life which drives depreciation expense.

**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.

We proposed material adjustments to correct balances at June 30, 2021 – construction in progress was overstated by \$62.5 million and infrastructure was overstated by \$37.7 million as detailed below:

- Infrastructure assets were misstated when year-end accruals were not properly included (or reversed) in reported construction in progress amounts.
- Costs related to the construction of toll gantries were identified as road maintenance in error, causing an understatement of CIP additions of \$10.9 million.
- Ten projects identified as substantially complete in fiscal 2021 and reclassified from CIP to Infrastructure were overstated by \$38.3 million.

**Cause:** Controls over RIDOT’s infrastructure asset identification process are not sufficient to ensure accurate accumulation of capitalized infrastructure amounts.

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.



RIDOT does not review the Capital Asset portrait to ensure that balances are consistent with supporting documentation and RIFANs.

**Effect:** Infrastructure assets and related depreciation expense may be misstated in the State’s financial statements.

**RECOMMENDATIONS**

- 2021-027a Enhance controls over the assignment of project infrastructure codes.
- 2021-027b Improve controls over the calculation and identification of projects to be reclassified from Construction in Progress (CIP) to Infrastructure. Record any infrastructure related journal entry at the funding source level. Ensure information maintained in the Department’s Schedule of Construction in Progress agree to FMS, RIFANS and the capital asset portrait. Any differences should be researched and resolved.
- 2021-027c Document consideration of whether any of the State’s transportation infrastructure has been impaired consistent with GAAP criteria.
- 2021-027d 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 2021-028**

*(significant deficiency – new finding)*

**TOLLING REVENUES – EVALUATION OF CONTROLS OVER FUNCTIONS PERFORMED BY EXTERNAL PARTIES**

**Background:** Service Organization Control (SOC) reports are provided by service organizations to assure customers/clients that controls are sufficiently designed and in operation over relevant activities. Management of the user entity should use these reports as part of their overall consideration and documentation of the adequacy of the design and operation of internal control. During fiscal 2021 there were 12 tolling locations which collected approximately \$32.7 million in revenue.

Obtain a service organization control report to provide assurance on key controls of a vendor involved in highway tolling operations.

**Criteria:** Management has responsibility for the adequacy of design and operation of an entity’s control structure including functions performed by external parties.

**Condition:** Management lacks assurance that information system related internal controls provided by the vendor responsible for identifying the proper vehicles to be tolled and reporting such information to RIDOT are adequate to ensure financial and other information is accurate, complete, available, and secure.

**Cause:** The State did not obtain an independent SOC report from the vendor responsible for running the Tolling System because RIDOT did not include a specific requirement to provide the results of independent SOC testing as part of their contractual agreement.

**Effect:** Many functions performed by external parties are material to the State’s overall operations. Deficiencies in the design or operation of controls at service organizations could materially impact the State’s overall controls over financial reporting.

**RECOMMENDATION**

2021-028      Modify the contract with the tolling vendor to require the vendor to provide the results and conclusions of the annual SOC testing.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-029**

**(significant deficiency – repeat finding – 2020-020)**

**ASSESS THE RESOURCES AND SYSTEMS NECESSARY TO EFFECTIVELY ADMINISTER THE OPEB SYSTEM**

**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 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.

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 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 are 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**

- |           |   |
|-----------|---|
| 2021-029a | Assess the resources necessary to effectively manage and administer the OPEB System to ensure all System functionalities are met and adequately controlled.                             |
| 2021-029b | 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.          |
| 2021-029c | Evaluate assigned responsibilities for key functions and segregate certain responsibilities for incompatible functions to enhance controls over critical plan administrative functions. |
| 2021-029d | 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 2021-030**

*(material noncompliance – repeat finding – 2020-022)*

**RHODE ISLAND CONVENTION CENTER AUTHORITY – RESTRICTIVE COVENANTS**

**Criteria:** Bond indentures require that the Authority fund the Operating Reserve requirement of the restrictive covenants for the RICC and the DDC.

**Condition:** During the year ended June 30, 2021, 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 certain debt indentures with respect to the Operating Reserve requirement.

**Effect:** As a result of this fund not being funded, the Authority is in noncompliance with certain bond indentures.

**Cause:** The Authority does not have sufficient cash flow to fund the Operating Reserve.

**RECOMMENDATION**

2021-030      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 2021-031**

*(material weakness – repeat finding – 2020-023)*

**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 principal 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**

2021-031 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 2021-032**

**(significant deficiency – repeat finding – 2020-024)**

**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 misappropriation of District assets.

**RECOMMENDATION**

2021-032 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 2021-033**

*(material weakness – new finding)*

**I-195 REDEVELOPMENT DISTRICT – RESTATEMENT OF 2020 FINANCIAL STATEMENTS**

**Criteria:** Financial statements should accurately reflect transactions recorded in the financial records.

**Condition:** As part of an internal review and reconciliation process with the State, management discovered amounts incorrectly reported in the 2020 financial statements.

**Cause:** During the year-end close for the year ended June 30, 2020, there was a change in who managed the accounting for the District. During the year ended June 30, 2021, the District noted changes that were needed to the prior year financial statements, as described in the notes to the Financial Statements.

In addition, there were unknown permit fees collected by the State by credit card that the District was not made aware of until after the June 30, 2020 audited financial statements were made available to issue.

**Effect:** The District’s internal controls over financial reporting were unable to prevent, or detect and correct errors on a timely basis. The District found it necessary to record adjustments totaling \$27,971 (reducing revenues and reallocating expenses) to its 2020 financial statements.

**RECOMMENDATION**

2021-033      We recommend that management ensure that appropriate controls are in place over its financial reporting to prevent, or detect and correct, errors on a timely basis.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-034**

*(significant deficiency – new finding)*

**I-195 REDEVELOPMENT DISTRICT – CYBERSECURITY**

**Criteria:** The District should ensure that appropriate cybersecurity policies, procedures and controls are in place to protect the District against losses.

**Condition:** During the year, the District was the target of a phishing attack where the perpetrator portrayed an employee, successfully instructed management to amend payroll direct deposit information, and fraudulently obtained an employee’s net pay for two payroll cycles.

**Cause:** The District lacked sufficient cybersecurity training and related control policies and procedures to protect the District from this type of fraudulent scheme.

**Effect:** As a result, the District incurred uninsured losses of approximately \$6,599 for payroll that was routed to the perpetrator’s bank account.

**RECOMMENDATION**

2021-034      We recommend that management implement cybersecurity training and appropriate control policies and procedures to ensure that such instances do not recur in the future.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-035**

*(significant deficiency – new finding)*

**THE METROPOLITAN REGIONAL CAREER AND TECHNICAL CENTER – FAILURE TO RECONCILE THE GENERAL LEDGER**

**Criteria:** Internal controls should be in place to provide reasonable assurance that general ledger accounts are properly reconciled.

**Condition:** During the performance of our audit of the MET’s financial statements, we noted that the trial balance was not properly reviewed before given to the auditors. We noted significant entries needed to be made related to state aid, accrued payroll, accounts payable, and fixed assets upon review of the accounts.

**Cause:** Management failed to enforce policies and procedures to ensure internal controls are functioning properly in relation to the conditions listed above.

**Effect:** Failure to properly reconcile general ledger accounts resulted in a significant amount of adjusting journal entries and increases the risk of material misstated financial statements.

**RECOMMENDATION**

2021-035 Policies and procedures should be developed and implemented by the Met’s management to ensure that appropriate internal controls are enforced.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-036**

*(material weakness – new finding)*

**RHODE ISLAND COMMERCE CORPORATION – REVENUE RECOGNITION**

**Criteria:** The Rhode Island Commerce Corporation should recognize revenue in the period in which it is earned.

**Condition:** In regards to the Small Business Loan Fund, there was \$1,000,000 of CARES Act Revolving Loan Fund revenue recognized on June 29, 2021, during the fiscal year ended June 30, 2021, when the funds were received. The Rhode Island Commerce Corporation should have (1) delayed revenue recognition until when the funds were disbursed on July 1, 2021, during the year ending June 30, 2022, or (2) been recorded as unearned revenue to be recognized as of July 1, 2021. This appears to be an isolate incidence and is not systemic.

**Cause:** There are multiple causes, including (1) the Rhode Island Commerce Corporation experienced significant turnover in accounting staff, including the loss of two chief financial officers during the year, and hiring two new personnel, (2) a significant increase in the volume of transactions and (3) the impact of the ongoing COVID-19 pandemic.

**Effect:** Because the Rhode Island Commerce Corporation’s internal controls were unable, on a timely basis, to prevent, or detect and correct, a material error resulting in revenue being overstated by \$1,000,000.

**RECOMMENDATION**

2021-036 We recommend that the Rhode Island Commerce Corporation review its revenue recognition policy to ensure proper recognition or deferral of amounts.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-037**

*(significant deficiency – new finding)*

**CONTROLS OVER PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Criteria:** 2 CFR 200.510(b) requires “The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee’s financial statements which must include the total Federal awards expended as determined in accordance with §200.502. ... At a minimum, the schedule must:

Controls over the preparation of the Schedule of Expenditures of Federal Awards (SEFA) can be enhanced to ensure all program activity is accurately reported to the proper Assistance Listing number and amounts passed through to subrecipients are appropriately classified and reported.

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the Assistance Listings Number or other identifying number when the Assistance Listings information is not available. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.”

**Condition:** We noted several instances in which adjustments to the SEFA were necessary to accurately report the federal expenditure activity for fiscal 2021:

- Pandemic EBT Food Benefits (10.542) expenditures totaling \$50,374,577 were not separately identified within the State’s accounting system and were instead included in the benefits paid through the Supplemental Nutrition Assistance Program (10.551).
- Disaster Grants – Public Assistance (Presidentially Declared Disasters) (97.036) awards flowing through the State to municipalities and local non-profit organizations totaling \$14,467,491 were recorded in the State’s accounting system as offsetting expenditure credits for the related charges, which were not presented in the program total on the SEFA. Related subrecipient amounts totaling \$12,038,654 were similarly not presented on the SEFA.
- Coronavirus Relief Fund (21.019) amounts passed through to subrecipients were overstated by \$66,023,867 for funds provided to business that would fall under the category of “business beneficiaries” but do not meet the Uniform Guidance definition of a subrecipient.

**Cause:** During the pandemic, the State received multiple new funding sources which presented unique challenges in presenting the SEFA consistent with Uniform Guidance.

**Effect:** Without correction, the SEFA would not accurately present federal expenditures in accordance with the Uniform Guidance.

**RECOMMENDATION**

2021-037      Ensure policies and procedures for presenting the SEFA are consistent with Uniform Guidance requirements.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*



<b>Table of Findings by Major Program</b>		
<b>Program Title</b>	<b>Assistance Listing No.</b>	<b>Applicable Findings</b>
Pandemic EBT Food Benefits	10.542	None
SNAP Cluster:		
Supplemental Nutrition Assistance Program (SNAP)	10.551	2021-039, 2021-040
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	
Child Nutrition Cluster:		
School Breakfast Program	10.553	2021-041
National School Lunch Program	10.555	
Special Milk Program for Children	10.556	
Summer Food Service Program for Children	10.559	
Child Nutrition Discretionary Grants Limited Availability	10.579	
Home Investment Partnerships Program	14.239	None
Fish and Wildlife Cluster:		
Sport Fish Restoration	15.605	2021-042, 2021-043, 2021-044
Wildlife Restoration and Basic Hunter Education	15.611	
Crime Victim Assistance	16.575	2021-038, 2021-045, 2021-046
Unemployment Insurance	17.225	2021-047, 2021-048
Airport Improvement Program	20.106	None
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	2021-049, 2021-050
Recreational Trails	20.219	
Federal Transit Cluster		
Federal Transit – Capital Investment Grants	20.500	2021-051, 2021-052, 2021-053, 2021-054, 2021-055, 2021-056, 2021-057
Federal Transit – Formula Grants	20.507	
State of Good Repair Grants Program	20.525	
Bus and Bus Facilities Formula Program	20.526	
Coronavirus Relief Fund	21.019	2021-047, 2021-058, 2021-059, 2021-060, 2021-061
Special Education (IDEA) Cluster:		
Special Education Grants to States	84.027	None
Special Education Preschool Grants	84.173	
Education Stabilization Fund	84.425	2021-038
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323	2021-038, 2021-061, 2021-062, 2021-063
Temporary Assistance for Needy Families	93.558	2021-038, 2021-039, 2021-040, 2021-064
CCDF Cluster:		
Child Care and Development Block Grant	93.575	2021-038, 2021-039, 2021-040, 2021-065, 2021-066, 2021-067
Child Care Mandatory and Matching Funds of the Child Care Development Fund	93.596	
Children’s Health Insurance Program	93.767	2021-039, 2021-040, 2021-068, 2021-069, 2021-070, 2021-071, 2021-072, 2021-073
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	2021-039, 2021-040, 2021-069, 2021-070, 2021-071, 2021-072, 2021-073, 2021-074, 2021-075, 2021-076
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777	
Medical Assistance Program	93.778	



<b>Table of Findings by Major Program (cont'd)</b>		
<b>Program Title</b>	<b>Assistance Listing No.</b>	<b>Applicable Findings</b>
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	2021-038, 2021-061, 2021-077
Presidential Declared Disaster Assistance to Individuals and Households – Other Needs	97.050	2021-078
Research and Development Cluster	Various	None

**Finding 2021-038**

**(other noncompliance / significant deficiency – new finding)**

**CRIME VICTIM ASSISTANCE – 16.575**

Federal Award Agency: U.S. Department of Justice (DOJ)

Federal Award Fiscal Years: 2018, 2019 and 2020

Federal Award Numbers: 2018-V2-GX-0062, 2019-V2-GX-0056 and 2020-V2-GX-0062

Administered by: Department of Public Safety (DPS), Rhode Island Public Safety Grant Administration Office (RIPSGAO)

**ELEMENTARY AND SECONDARY SCHOOL EMERGENCY RELIEF (ESSER) FUND – 84.425D**

Federal Award Agency: U.S. Department of Education (ED)

Federal Award Fiscal Year: 2020

Federal Award Number: S425D200046

Administered by: Rhode Island Department of Elementary and Secondary Education (RIDE)

**EPIDEMIOLOGY AND LABORATORY CAPACITY FOR INFECTIOUS DISEASES (ELC) – 93.323**

Federal Award Agency: U.S. Department of Health and Human Services (HHS)

Federal Award Fiscal Year: 2019-2024

Federal Award Number: NU50CK000519

Administered by: Rhode Island Department of Health (RIDOH)

**TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – 93.558**

Federal Award Agency: Department of Health and Human Services (HHS), Administration for Children and Families

Federal Award Fiscal Years: 2020 and 2021

Federal Award Numbers: G2002RITANF and G2102RITANF

Administered by: Department of Human Services (DHS)

**CCDF CLUSTER – 93.575, 93.596**

Federal Award Agency: Department of Health and Human Services (HHS), Administration for Children and Families

Federal Award Fiscal Years: 2020 and 2021

Federal Award Numbers: G2001RICCDF and G2101RICCDF

Administered by: Department of Human Services (DHS)

**DISASTER GRANTS – PUBLIC ASSISTANCE (PRESIDENTIALLY DECLARED DISASTERS) – 97.036**

Federal Award Agency: U.S. Department of Homeland Security (DHS), Federal Emergency Management Agency (FEMA)

Federal Award Fiscal Year: Not Applicable

Federal Award Number: Not Applicable

Administered by: Rhode Island Emergency Management Agency (RIEMA)

**Compliance Requirement: Reporting**

**FEDERAL FUNDING ACCOUNTABILITY AND TRANSPARENCY ACT (FFATA)**

**Criteria:** The Federal Funding Accountability and Transparency Act (Public Law 109-282; as amended by Section 6202 of Public Law 110-252), as codified in 2 CFR Part 170, requires recipients of grants and cooperative agreements to report first-tier subawards of \$30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS).

Controls over reporting of subawards to a federal transparency website can be enhanced to ensure accurate reporting in compliance with the requirements of FFATA.

**Condition:** Subaward information entered into the FSRS, made publicly available via USASpending.gov, was not inclusive of all subawards made for several programs during fiscal 2021. For some grants where the reporting requirement was applicable, no sub-award information was reported and for one grant as detailed below we noted errors in the data reported.

**Crime Victim Assistance (16.575)**

Transactions Tested	Subaward not reported	Report not timely	Subaward amount incorrect	Subaward missing key elements
177	7	0	4	0
Dollar Amount of Tested Transactions	Subaward not reported	Report not timely	Subaward amount incorrect	Subaward missing key elements
\$22,674,644**	\$1,400,336	\$0	\$256,011	\$0

\*\*Includes all active award years, not specifically fiscal 2021 expenditures.

**Epidemiology and Laboratory Capacity for Infectious Diseases (93.323)**

Transactions Tested	Subaward not reported	Report not timely	Subaward amount incorrect	Subaward missing key elements
7	7	0	0	0
Dollar Amount of Tested Transactions	Subaward not reported	Report not timely	Subaward amount incorrect	Subaward missing key elements
\$1,813,847	\$1,813,847	\$0	\$0	\$0

**Disaster Grants – Public Assistance (Presidentially Declared Disasters) (97.036)**

Transactions Tested	Subaward not reported	Report not timely	Subaward amount incorrect	Subaward missing key elements
2	2	0	0	0
Dollar Amount of Tested Transactions	Subaward not reported	Report not timely	Subaward amount incorrect	Subaward missing key elements
\$584,058	\$584,058	\$0	\$0	\$0

The State has not established statewide control procedures or monitoring to ensure FFATA reporting requirements are met by the various departments and agencies administering federal grants. Training to enhance awareness and compliance by state departments and agencies is needed.

**Cause:** Centralized statewide controls and monitoring efforts have not been established to ensure compliance with FFATA reporting requirements.

**Effect:** The State did not sufficiently comply with the reporting requirements of FFATA.

**Questioned Costs:** Not Applicable

**Valid Statistical Sample:** Not Applicable

**RECOMMENDATIONS**

- 2021-038a      Establish statewide policies and procedures to ensure accurate and timely reporting of subawards in accordance with FFATA.
- 2021-038b      Implement FFATA training for departments and agencies administering federal program to enhance awareness and compliance.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-039**

**(material weakness – repeat finding – 2020-026)**

**SNAP CLUSTER – 10.551, 10.561**

Federal Award Agency: U.S. Department of Agriculture (USDA), Food and Nutrition Service  
Federal Award Fiscal Years: 2020 and 2021  
Federal Award Numbers: Not Applicable

Administered by: Department of Human Services (DHS)

**TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – 93.558**

Federal Award Agency: Department of Health and Human Services (HHS), Administration for Children and Families  
Federal Award Fiscal Years: 2020 and 2021  
Federal Award Numbers: G2002RITANF and G2102RITANF

Administered by: Department of Human Services (DHS)

**CCDF CLUSTER – 93.575, 93.596**

Federal Award Agency: Department of Health and Human Services (HHS), Administration for Children and Families  
Federal Award Fiscal Years: 2020 and 2021  
Federal Award Numbers: G2001RICCDF and G2101RICCDF

Administered by: Department of Human Services (DHS)

**CHILDREN’S HEALTH INSURANCE PROGRAM – 93.767**

Federal Award Agency: Department of Health and Human Services (HHS)  
Federal Award Fiscal Years: 2020 and 2021  
Federal Award Numbers: 2005RI5021 and 2105RI5021

Administered by: Executive Office of Health and Human Services (EOHHS)

**MEDICAID CLUSTER – 93.775, 93.777, 93.778**

Federal Award Agency: Department of Health and Human Services (HHS)  
Federal Award Fiscal Years: 2020 and 2021  
Federal Award Numbers: 2005RI5MAP and 2105RI5MAP

Administered by: Executive Office of Health and Human Services (EOHHS)

***Compliance Requirement: Special Tests and Provisions – ADP Risk Analysis and System Security Review***

**RIBRIDGES USER ACCESS CONTROLS**

**Background:** Approximately 960 individuals have access to RIBridges. Users include State employees within various State departments and various vendors/contractors that require access (e.g., Deloitte – system developer and Automated Health Solutions (AHS) – contact/call center operator). RIBridges system access roles define a user’s access to various system functions and system information and define the ability to view, change or authorize transactions. The State’s Division of Information Technology (DoIT) has oversight responsibility for system security but delegates management of user access to State departments and vendors. RIBridges contains extensive personally identifiable information for more than 300,000 individuals. Medical insurance, cash, and childcare benefits are authorized through the system.

Controls over the RIBridges eligibility and benefit system are inadequate to ensure that user access is limited to only authorized individuals and such access is consistent with each user’s specific scope of duties. Additionally, automated password change controls were not operational; and therefore, users were not required to change passwords at required intervals.

**Criteria:** Controls over user access to the RIBridges application should appropriately limit access to only authorized individuals and such access must be consistent with each user’s specific scope of duties. Timely monitoring is required to ensure access is (1) granted with appropriate authorization, (2) terminated or modified promptly when employees leave service or change duties, and (3) reviewed periodically.

Additionally, monitoring of user actions that indicate attempted access to sensitive data and changes to access rights or the attempted change to access rights should be logged, reported and followed up on to ensure the security of the application and its data are within applicable laws and regulations.

Controls to ensure security of users and passwords should be functioning appropriately and password expiration/reset should occur at least every 90 days (60 days for those with higher level access) to ensure that the application and its sensitive recipient data are not compromised (*RI DOA Enterprise Policy: ETSS – Enterprise Passwords – 2019*).

Effective controls to ensure timely termination of system access typically involve integration with an entity’s human resource or payroll systems. Those functionalities do not currently exist in the State’s antiquated personnel and payroll systems; however, implementation of a new ERP system with prioritization of the human capital and resource management functionality is soon anticipated.

**Condition:** Access to the RIBridges application is not sufficiently controlled. In some instances, access is not terminated timely for users no longer requiring access and overall monitoring of user access should be improved.

Oversight of access to RIBridges is managed through a decentralized process. RIBridges users are segregated by organizational group (State department or agency, vendor/contractor) and responsibility for monitoring access is designated to an individual for each subgroup.

During fiscal 2021, a contractor performing a required Minimum Acceptable Risk Standards for Exchanges (MARS-E 2.0 framework) in accordance with CMS information security and privacy programs also highlighted continued weaknesses in controls over user access. MARS-E-2 reviews are required for all ACA administering entities, including exchanges or marketplaces, state Medicaid, or Children's Health Insurance Program (CHIP) agencies, and supporting contractors.

DoIT efforts to monitor system access including timely termination of system access for employees and contractors and Deloitte employees was not fully operational during fiscal 2021 – more robust efforts were performed in October 2021 after the close of the fiscal year.

**Cause:** Comprehensive user access monitoring procedures were not sufficiently operational over the disparate groups of RIBridges users (including State employees and vendors/consultants) during fiscal 2021.

Automated password change controls were not operational during most of fiscal 2021; and therefore, users were not required to change passwords at required intervals. The State continues to defer password resets during high volume customer activity associated with open enrollment periods.

**Effect:** Decentralized management and limited monitoring of user action reporting results in a weakening of application and data security. RIBridges access may continue after employment has terminated and RIBridges access may be inconsistent with an individual’s responsibilities and not be detected timely.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

**RECOMMENDATIONS**

- 2021-039a      Ensure the overall monitoring of RIBridges access is continually performed to ensure access is granted appropriately, terminated timely, and consistent with each individual's scope of duties.
- 2021-039b      Evaluate the access control management process and the report elements so that privilege changes and attempted changes are captured and evaluated for appropriateness. Periodically check that the Deloitte Security Administrator and Deloitte employee privilege changes and actions are appropriate.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-040**

**(material weakness – repeat finding – 2020-027)**

**SNAP CLUSTER – 10.551, 10.561**

Federal Award Agency: U.S. Department of Agriculture (USDA), Food and Nutrition Service  
Federal Award Fiscal Years: 2020 and 2021  
Federal Award Numbers: Not Applicable

Administered by: Department of Human Services (DHS)

**TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – 93.558**

Federal Award Agency: Department of Health and Human Services (HHS), Administration for Children and Families  
Federal Award Fiscal Years: 2020 and 2021  
Federal Award Numbers: G2002RITANF and G2102RITANF

Administered by: Department of Human Services (DHS)

**CCDF CLUSTER – 93.575, 93.596**

Federal Award Agency: Department of Health and Human Services (HHS), Administration for Children and Families  
Federal Award Fiscal Years: 2020 and 2021  
Federal Award Numbers: G2001RICCDF and G2101RICCDF

Administered by: Department of Human Services (DHS)

**CHILDREN’S HEALTH INSURANCE PROGRAM – 93.767**

Federal Award Agency: Department of Health and Human Services (HHS)  
Federal Award Fiscal Years: 2020 and 2021  
Federal Award Numbers: 2005RI5021 and 2105RI5021

Administered by: Executive Office of Health and Human Services (EOHHS)

**MEDICAID CLUSTER – 93.775, 93.777, 93.778**

Federal Award Agency: Department of Health and Human Services (HHS)  
Federal Award Fiscal Years: 2020 and 2021  
Federal Award Numbers: 2005RI5MAP and 2105RI5MAP

Administered by: Executive Office of Health and Human Services (EOHHS)

***Compliance Requirement: Special Tests and Provisions – ADP Risk Analysis and System Security Review***

**COMPREHENSIVE DEPARTMENTAL AUTOMATED DATA PROCESSING (ADP) RISK ANALYSIS AND SYSTEM SECURITY PROGRAM**

*See related Financial Statement Finding 2021-023.*

**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.). These programs had eligibility, benefit determinations, and payments processed mainly by two systems – MMIS and RIBridges. State agencies (EOHHS, DHS, and the Department of Administration’s Division of Information Technology – DoIT) were required to determine appropriate ADP

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.



security requirements based upon recognized industry standards for each system, optimally within a comprehensive plan.

**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 independent service organization control (SOC) reports 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 that meets the required federal components. Additionally, any deficiencies noted in the SOC reports must be evaluated timely and documented to determine if they affect any of the required controls over federal program administration. 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.

A contractually required SOC report of the RI Bridges system for controls in effect during fiscal 2022 has been procured by Deloitte. Going forward this SOC report will provide additional information that should be integrated into the overall ADP risk analysis and system security monitoring process.

Clearly documented roles and responsibilities outlining the coordination among EOHHS, DHS, and DoIT in managing IT security over RIBridges can be enhanced and formalized. For example, we found weaknesses in RIBridges user access controls as described in Finding 2021-039. This is an example of potential risks that should be assessed and mitigated through a robust risk assessment monitoring process.

Such documentation should consider all available information as well as the need to utilize external resources to monitor or evaluate RIBridges' information systems security. Other information that is available for consideration within the ADP risk assessment process includes ongoing IV&V monitoring of RIBridges as well as MARS-E evaluations applicable to Health Insurance Exchanges.

The federally required ADP risk analysis and system security considerations are consistent with an overall enterprise-wide need (*as described in Finding 2021-023*), to complete risk assessments for all IT systems within the State.

EOHHS, DHS, and DoIT should (1) consider the significance of these issues and impact on the State's internal control 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

- 2021-040a 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.
- 2021-040b Ensure that the formalized plan includes a comprehensive risk assessment for both systems (RIBridges and MMIS), 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 2021-041**

*(significant deficiency – repeat finding – 2018-044)*

#### **CHILD NUTRITION CLUSTER – 10.553, 10.555, 10.556, 10.559 AND 10.579**

Federal Award Agency: US Department of Agriculture (USDA)

Federal Award Year: 2020-2021

Federal Award Number: 4RI300306

Administered by: Department of Corrections (DOC)

***Compliance Requirement: Special Tests and Provisions***

#### **ACCOUNTABILITY FOR 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.

The Department of Corrections needs to ensure that it complies with federal regulations governing the receipt, distribution and inventory of USDA-Donated Foods.

**Criteria:** 7 CFR section 250.12(b) 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 of USDA-Donated Foods in June 2021. In sum, there were 50 types of donated commodities in inventory that were available for use in the Child Nutrition Cluster programs. The physical count revealed that 22 of the 50 items counted 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 1 to 95 cases. The causes of these variances were not resolved.

**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**

2021-041      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 2021-042***

***(significant deficiency – new finding)***

#### **FISH AND WILDLIFE CLUSTER – 15.605, 15.611**

Federal Award Agency: U.S. Department of the Interior (DOI), Office of Inspector General

Federal Award Fiscal Years: 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019 and 2020

Federal Award Numbers: F11AF01084, F12AF01143, F13AF00418, F13AF01274, F14AF00358, F14AF00457, F15AF00017, F15AF00106, F15AF01099, F15AF01316, F16AF00148, F16AF00935, F16AF00937, F16AF00938, F16AF01101, F17AF00141, F17AF00192, F17AF00893, F17AF01143, F18AF00158, F18AF00968, F18AF01050, F18AF01111, F18AF01112, F19AF00482, F19AF00609, F19AF01093, F19AF01094, F19AF01095, F20AF00145, F20AF00146, F20AF00241, F20AF10461, F20AF10572, F21AF00018, F21AF00372, F21AF00660, F21AF01234 and F21AF03287

Administered by: Department of Environmental Management (DEM)

***Compliance Requirement: Subrecipient Monitoring***

#### **SUBRECIPIENT MONITORING**

**Criteria:** All pass-through entities must monitor subrecipients 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)).

DEM's subrecipient monitoring procedures need to be enhanced to ensure that funds are expended by subrecipients in compliance with applicable program laws and regulations.

A pass-through entity (PTE) is responsible for: *During-the-Award Monitoring* – Monitoring the activities of the subrecipient (through reporting, site visits, regular contact or other means) as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR sections 200.332(d) through (f)).

Subaward monitoring must include the following:

1. Reviewing financial and programmatic (performance and special reports) required by the PTE.
2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means.
3. Issuing a management decision for audit findings pertaining to the federal award provided to the subrecipient from the PTE as required by 2 CFR section 200.521.

Federal award recipients must determine whether each agreement entered into for the disbursement of federal program funds casts the entity receiving the funds in the role of a subrecipient or a contractor based on the following definitions (2 CFR 200.330):

- A subrecipient receives federal funds from a non-federal entity *to carry out part of a federal program*. The legal agreement between the two parties creates a federal assistance relationship commonly known as a sub-award.
- A contractor is an entity (dealer, distributor, merchant or other seller) who has a legal agreement with a non-federal entity *to provide goods and services* needed to carry out the program under the federal award.

**Condition:** DEM did not perform any on-site fiscal monitoring of its Fish and Wildlife Cluster program subrecipients during State fiscal year 2021. DEM indicated it did obtain and review Single Audit reports (for two subrecipients which received more than \$750,000 in federal funds in fiscal year 2021) to verify if any of the subrecipients had reported deficiencies pertaining to any applicable program laws or regulations; however, DEM maintained no documentation of their review of the audit reports.

DEM utilizes a *RI OMB Subrecipient / Contractor Determination Tool* to document their determination of vendor or subrecipient status. Of the 30 active Fish and Wildlife Cluster contracts during fiscal 2021 twenty-one had the completed subrecipient/ contractor determination tool documentation and nine did not. We observed that when the required state match was to be provided by the contractor/subrecipient, that did not always result in a determination of a subrecipient relationship. We believe requiring an entity to provide the State match (either actual or in-kind) is likely indicative of a subrecipient rather than vendor relationship.

Documentation should be maintained for the evaluation of all contracts and when a subrecipient relationship exists, during the award monitoring and review of subrecipient audit reports (when available) should be performed.

**Cause:** Limitations regarding on-site subrecipient monitoring procedures were common during fiscal 2021 due to continuing COVID-19 pandemic considerations. In addition, DEM considered all fiscal year 2021 Fish and Wildlife Cluster contracts to be vendor rather than subrecipient relationships. DEM should revisit the determination of subrecipient vs. vendor status when matching requirements are being met by the contractor.

**Effect:** Subrecipient monitoring procedures may be insufficient to ensure that DEM is correctly identifying and classifying subrecipients and complying with applicable program regulations and requirements.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

**RECOMMENDATIONS**

- |           |   |
|-----------|---|
| 2021-042a | Enhance subrecipient monitoring procedures to ensure that DEM is correctly identifying and classifying subrecipients and complying with applicable program regulations and requirements.              |
| 2021-042b | Perform on-site fiscal monitoring and obtain and review all relevant audit reports to verify if any subrecipients had reported deficiencies pertaining to any applicable program laws or regulations. |

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-043**

**(significant deficiency – new finding)**

**FISH AND WILDLIFE CLUSTER – 15.605, 15.611**

Federal Award Agency: U.S. Department of the Interior (DOI), Office of Inspector General

Federal Award Fiscal Years: 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019 and 2020

Federal Award Numbers: F11AF01084, F12AF01143, F13AF00418, F13AF01274, F14AF00358, F14AF00457, F15AF00017, F15AF00106, F15AF01099, F15AF01316, F16AF00148, F16AF00935, F16AF00937, F16AF00938, F16AF01101, F17AF00141, F17AF00192, F17AF00893, F17AF01143, F18AF00158, F18AF00968, F18AF01050, F18AF01111, F18AF01112, F19AF00482, F19AF00609, F19AF01093, F19AF01094, F19AF01095, F20AF00145, F20AF00146, F20AF00241, F20AF10461, F20AF10572, F21AF00018, F21AF00372, F21AF00660, F21AF01234 and F21AF03287

Administered by: Department of Environmental Management (DEM)

**Compliance Requirement: Matching, Level of Effort, Earmarking**

**MATCHING**

**Criteria:** Fish and Wildlife Cluster grants require a state match. The federal share is at least 10 percent and up to 75 percent of allowable costs of the grant funded project. The specific amount will be in the approved grant award (50 CFR section 80.83).

DEM's controls to ensure compliance with state matching requirements for the Fish and Wildlife Cluster need to be enhanced.

The state fish and wildlife agency must not draw down federal funds in a greater proportion to the use of match than total federal funds bear to total match unless:

1. The drawdown is to pay for construction, including land acquisition.
2. An in-kind contribution is not yet available for delivery to the grantee or subgrantee.
3. The project is not at the point where it can accommodate an in-kind contribution.

The conditions above require the regional director's prior approval and the state must satisfy the match requirement before it submits the final Federal Financial Report (50 CFR section 80.96(a)).

The vast majority of DEM's Sport Fish and Wildlife Cluster open grant awards for State fiscal year 2021 had a twenty-five percent (25%) state matching requirement. The required match is typically met in one of three ways, (a) matching expenditures are paid from a restricted receipt account funded by fishing and hunting licenses, (b) provided by the subaward contractor or subrecipient, or (c) verified through documentation provided detailing in-kind (good or service provided other than money (voluntary labor or donated services)) contributions.

**Condition:** DEM was unable to consistently provide adequate supporting documentation to demonstrate how the match was met and that it was met before it drew down (requested reimbursement for) the federal share of expenditures. Separate samples of sixty transactions were randomly selected for each of the two programs within the Fish and Wildlife Cluster.

Within the Sport Fish Restoration sample, one invoice transaction was drawn without the required twenty-five percent match being met (current drawdowns for this grant award are now on hold). DEM was unable to provide any verification or support indicating what appears to be a similar situation on a second transaction within that program.

Within the Wildlife sample one invoice transaction was drawn without the required twenty-five percent match being met (current drawdowns for this grant award are now on hold). Also, three separate invoice transactions processed for the same vendor were all drawn without the required match being provided by the vendor, although no hold was noted by DEM for these grant awards.

Controls to ensure compliance with matching requirements are weakened by the structure of accounts established within RIFANS accounting system. Five RIFANS accounts were assigned to multiple grant awards. We also noted all fiscal year 2021 expenditures specific to line sequence number 3700111 (Grant Award F17AF00141), were erroneously charged to Sport Fish Restoration (15.605) in the State’s accounting system instead of Wildlife Restoration and Basic Hunter Education (15.611).

Similar findings are documented in the Office of Inspector General, U.S. Department of the Interior’s Audit Report No. 2019-WR-007 (dated December 2020), *U.S. Fish and Wildlife Service Grants Awarded to the State of Rhode Island, Department of Environmental Management, Division of Fish and Wildlife, From July 1, 2016, Through June 30, 2018, Under the Wildlife and Sport Fish Restoration Program, under Insufficient Controls Over Grant-Specific Data and Improper Drawdown Support sections of the Report*. Not all Corrective Action Plans specific to that Report have been successfully implemented at this time.

**Cause:** For most of fiscal year 2021, DEM had one FTE responsible for the majority of the Sport Fish and Wildlife Cluster programs grant matching requirement documentation. In addition, efforts to work in conjunction with Accounts and Control and the State Budget Department, to correct RIFANS system account inconsistencies were attempted, yet unsuccessful.

**Effect:** Current monitoring procedures may be insufficient to ensure that grant matching requirements are complying with applicable program regulations and requirements. Also, current accounting system controls may be ineffective to ensure that DEM’s financial management systems are sufficient to be able to verify and trace funds to a level of expenditures adequate to establish that such funds have been used according to federal regulations and conditions outline in the grant awards.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

**RECOMMENDATIONS**

- |           |   |
|-----------|---|
| 2021-043a | Improve agency procedures to ensure that grant matching requirements are met in compliance with applicable program regulations and requirements.                                |
| 2021-043b | Streamline the RIFANS accounts established for Fish and Wildlife Cluster grants to facilitate reporting and to demonstrate that applicable matching requirements have been met. |

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-044**

**(significant deficiency – new finding)**

**FISH AND WILDLIFE CLUSTER – 15.605, 15.611**

Federal Award Agency: U.S. Department of the Interior (DOI), Office of Inspector General

Federal Award Fiscal Years: 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019 and 2020

Federal Award Numbers: F11AF01084, F12AF01143, F13AF00418, F13AF01274, F14AF00358, F14AF00457, F15AF00017, F15AF00106, F15AF01099, F15AF01316, F16AF00148, F16AF00935, F16AF00937, F16AF00938, F16AF01101, F17AF00141, F17AF00192, F17AF00893, F17AF01143, F18AF00158, F18AF00968, F18AF01050, F18AF01111, F18AF01112, F19AF00482, F19AF00609, F19AF01093, F19AF01094, F19AF01095, F20AF00145, F20AF00146, F20AF00241, F20AF10461, F20AF10572, F21AF00018, F21AF00372, F21AF00660, F21AF01234 and F21AF03287

Administered by: Department of Environmental Management (DEM)

**Compliance Requirement: Equipment and Real Property Management**

**REAL PROPERTY MANAGEMENT**

**Criteria:** When grant funds are used for a capital improvement, a state fish and wildlife agency must have control adequate for the protection, maintenance, and use of the capital improvement for its authorized purpose during its useful life even if the agency did not acquire the land with grant funds. If the State fish and wildlife agency and the regional director jointly decide grant-funded real property is not needed for its original purpose, the real property must be used for another eligible purpose, or the State fish and wildlife agency must dispose of the property (50 CRF Part 80, Subpart J). In addition, federal regulation (50 CRF 80.90(f)) requires the Division to maintain control of all assets acquired under the grant to ensure that they serve the purpose for which acquired throughout their useful life.

DEM's Real Property Management procedures need to be enhanced to ensure that property acquired or constructed with Wildlife Restoration program funds shall continue to serve the purpose for which it was acquired or constructed in compliance with applicable program laws and regulations.

**Condition:** We inspected and toured DEM Fish and Wildlife Cluster program sites including the Round Top Management Area Headquarters. We found that DEM has not adequately maintained the property at Round Top Management Area Headquarters as it was in very poor condition. The property was purchased with grant award funds and is not currently being used in any capacity by DEM.

Similar findings are documented in the Office of Inspector General, U.S. Department of the Interior's Audit Report No. 2019-WR-007 (dated December 2020), *U.S. Fish and Wildlife Service Grants Awarded to the State of Rhode Island, Department of Environmental Management, Division of Fish and Wildlife, From July 1, 2016, Through June 30, 2018, Under the Wildlife and Sport Fish Restoration Program, under the Inadequate Real Property Management section of the Report*. Not all Corrective Action Plans specific to that Report have been successfully implemented at this time.

**Cause:** DEM has not developed and implemented adequate policies and procedures to maintain, manage, and monitor real property acquired or maintained with applicable grant award funds.

**Effect:** Real property acquired with federal funds are not maintained adequately to support continued use consistent with intended federal program objectives.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable



**RECOMMENDATION**

2021-044      Modify real property management procedures to ensure properties acquired with federal funds are adequately maintained, consistent with all applicable federal program requirements.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

**Finding 2021-045**

**(significant deficiency –new finding)**

**CRIME VICTIM ASSISTANCE – 16.575**

Federal Award Agency: U.S. Department of Justice (DOJ)

Federal Award Fiscal Years: 2018, 2019 and 2020

Federal Award Numbers: 2018-V2-GX-0062, 2019-V2-GX-0056 and 2020-V2-GX-0062

Administered by: Department of Public Safety (DPS), Rhode Island Public Safety Grant Administration Office (RIPSGAO)

**Compliance Requirement: Reporting**

**REPORTING**

**Criteria:** Grantees must submit quarterly SF-425 reports which detail federal expenditures and unobligated balances on a quarterly basis throughout the grant award periods.

Controls over federal reporting can be enhanced to ensure SF-425 Federal Financial Reports are accurate and adequately supported.

**Condition:** RIPSGAO was unable to provide all documentation necessary to support the quarterly SF-425 *Federal Financial Reports* selected for testing. In some instances, information on the reports was inconsistent with supporting documentation or was insufficiently supported.

We found errors on the reports that appeared to be due to transcribing errors or omitted information. Currently, reports are prepared and certified by the same individual without independent review.

**Cause:** The reporting deficiencies noted are attributable to insufficient independent or supervisory review of the reports prior to submission.

**Effect:** The reports required to be filed with the federal government included errors that were not detected.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

**RECOMMENDATIONS**

2021-045a      Ensure the data in the quarterly SF-425 *Federal Financial Reports* is complete and accurate.

2021-045b      Enhance the review process over quarterly SF-425 *Federal Financial Reports* to prevent or detect misstatements prior to submission.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

**Finding 2021-046**

**(significant deficiency – new finding)**

**CRIME VICTIM ASSISTANCE – 16.575**

Federal Award Agency: U.S. Department of Justice (DOJ)

Federal Award Fiscal Years: 2018, 2019 and 2020

Federal Award Numbers: 2018-V2-GX-0062, 2019-V2-GX-0056 and 2020-V2-GX-0062

Administered by: Department of Public Safety (DPS), Rhode Island Public Safety Grant Administration Office (RIPSGAO)

**Compliance Requirement: Subrecipient Monitoring**

**SUBRECIPIENT MONITORING**

**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.

Subrecipient monitoring procedures should be enhanced to ensure that funds are expended by subrecipients in compliance with applicable program laws and regulations.

A pass-through entity (PTE) is responsible for: *During-the-Award Monitoring* – Monitoring the activities of the subrecipient (through reporting, site visits, regular contact or other means) as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR sections 200.332(d) through (f)).

Subaward monitoring must include the following:

1. Reviewing financial and programmatic (performance and special reports) required by the PTE.
2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means.
3. Issuing a management decision for audit findings pertaining to the federal award provided to the subrecipient from the PTE as required by 2 CFR section 200.521.

**Condition:** RIPSGAO did not perform on-site fiscal monitoring of its subrecipients during State fiscal year 2021 due to risks related to the COVID-19 global pandemic; however, periodic remote or “virtual” monitoring was performed. On-site monitoring is planned to resume beginning in fiscal year 2023.

Forty-seven subrecipients were funded through Crime Victim Assistance awards and twenty-eight represented they expended more than \$750,000 from all sources of federal funds and were subject to single audit requirements. Eighteen submitted their single audit reports to RIPSGAO.

When the single audit reports are provided by the subrecipient, RIPSGAO *accepts and files* the Single Audit Reports; however, RIPSGAO lack a comprehensive process to ensure timely receipt and review of all subrecipient audit reports. Subrecipient single audit reports are obtainable through the federal single audit clearinghouse.

Additionally, subrecipient audit report review procedures should be enhanced to determine if; (a) Crime Victim Assistance was audited as a major program and (b) any control weaknesses or noncompliance related to the Crime Victim Assistance program are included in those reports. Timely review of



subrecipient audit reports, including issuance of management decisions where applicable, is a required subrecipient monitoring activity.

RIPSGAO has implemented risk assessment procedures which guide their subrecipient monitoring activities including the timing and frequency of site visits; however, these procedures do not include consideration of information available in the subrecipient single audit reports.

**Cause:** The State plan for fiscal year 2021 was modified to only require periodic remote/virtual monitoring of all subrecipients, due to the continued risks related to the COVID-19 global pandemic. Comprehensive procedures have not been implemented to obtain and review Single Audit Reports of all subrecipients and fully include consideration of such information in RIPSGAO risk assessment procedures.

**Effect:** Monitoring procedures may be insufficient to ensure that subrecipients are complying with applicable program regulations and requirements.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

**RECOMMENDATIONS**

- |           |  |
|-----------|--|
| 2021-046a | Obtain and review all Single Audit Reports for subrecipients. Issue management decisions on audit findings within six months as required by federal regulations.   |
| 2021-046b | Restore on-site monitoring for subrecipients to ensure compliance with program requirements.   |
| 2021-046c | Modify subrecipient risk assessment procedures to include consideration of whether Crime Victim Assistance was tested as a major program and other information available in subrecipient Single Audit Reports. |

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-047 (material noncompliance / material weakness – repeat finding – 2020-030)**

**UNEMPLOYMENT INSURANCE – 17.225**

Federal Award Agency: Department of Labor (DOL), Employment and Training Administration  
Federal Award Fiscal Years: Not Applicable  
Federal Award Numbers: Not Applicable – Direct payments with Unrestricted Use Funded through U.S. Treasury Trust Fund

Administered by: Department of Labor and Training (DLT)

**CORONAVIRUS RELIEF FUND – 21.019**

Federal Award Agency: U.S. Department of the Treasury (TREAS)  
Federal Award Fiscal Year: 2020  
Federal Award Numbers: SLT0005 and SLT0227

Administered by: Department of Labor and Training (DLT)

**Compliance Requirement: Eligibility**

**CONTROLS OVER UNEMPLOYMENT INSURANCE BENEFIT PAYMENTS**

*See related Financial Statement Finding 2021-002.*

**Background:** The Department of Labor and Training (DLT) disbursed nearly \$2.2 billion in unemployment insurance benefits in fiscal 2021. In response to the COVID-19 pandemic, the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act expanded and/or extended unemployment insurance benefits, including providing new benefits to self-employed individuals and independent contractors. During fiscal 2021, a portion (\$47 million) of unemployment insurance benefits were funded by the Coronavirus Relief Fund (21.019).

Controls over the processing of unemployment insurance claims were ineffective to sufficiently prevent fraudulent unemployment insurance benefit payments. Controls were also ineffective to ensure compliance with the documentation of self-employment income for the Pandemic Unemployment Assistance (PUA) program.

Fraudulent claims for unemployment insurance benefits also increased rapidly, concurrent with the overall increase in claims due to the pandemic. This unprecedented increase in fraudulent claims was experienced nationwide and was not unique to Rhode Island.

The system used by DLT to process unemployment insurance (UI) benefits utilizes outdated technology. This legacy system is mainframe based and programmed in COBOL. In response to the pandemic related surge in unemployment insurance claims, new “cloud-based” technologies were rapidly deployed to facilitate processing the volume of claims and interactions with claimants; however, the primary claims processing functions were still performed by the legacy system.

**Criteria:** Management is responsible for establishing and maintaining effective internal controls to process and disburse unemployment insurance benefits consistent with federal program guidelines including appropriate procedures to prevent and detect fraudulent payments.

The PUA program was created under the CARES Act to provide benefits to self-employed individuals who were previously ineligible for traditional unemployment insurance benefits. A “covered individual” is someone who meets each of the following three conditions:

1. The individual is not eligible for regular UC, EB, or PEUC. This also includes those who have exhausted all rights to such benefits, self-employed, those seeking part-time employment, individuals lacking sufficient work history. Self-employed individuals include independent contractors and “gig economy workers”.

2. Individual must self-certify that they are unemployed, partially unemployed, or unable or unavailable to work due to one of the COVID19 related reasons identified in Section 2102(a)(3)(A)(ii)(I) of the CARES Act and in Departmental guidance (UIPL 16-20 and Attachment I, Section C.1. of UIPL 16-20, Change 4). Because this eligibility is based on self-certification, states may only request supporting documentation if they have reasonable suspicions of fraud (question 23 of Attachment I to UIPL No. 16-20, Change 2).
3. Additionally, individuals who are paid on or after December 27, 2020, must submit proof of documentation substantiating employment, self-employment, or the planned commencement of employment or self-employment (see Attachment I, Section C.2. of UIPL No. 16-20, Change 4). This includes individuals requesting retroactive payments that are not received until after December 27, 2020.

**Condition:** DLT’s internal control procedures were not sufficiently effective to ensure that unemployment benefit payments were made only to eligible individuals. DLT estimated approximately \$98 million in fraudulent claims were paid between July 1, 2020 and June 30, 2021. An additional \$550 million are estimated as suspected fraudulent claims.

Controls over claims processing were weakened through suspension of the first week waiting period, a simplified application implemented to streamline and expedite processing, and the inability to apply the normal wage verification procedures to claims from self-employed individuals and independent contractors.

In a sample of 60 PUA claimants, our testing identified:

- 51 of 60 (85%) claimants received PUA payments without self-certifying their employment status.
- 50 of 60 (83%) claimants receiving PUA payments after December 27, 2020, provided no evidence of employment status or self-employment income.
- 31 of 60 (52%) claimants receiving PUA payments had no prior earnings history in the prior 18 months. The individual must have worked in the past 18 months to be considered part of the work force to collect benefits.
- 24 of 60 (40%) claimants receiving PUA payments declared dependents without providing SSN for each of their dependents. DLT did not obtain the department director’s approval to waive the receipt of SSN for all dependents claimed by the claimant.

**Cause:** The large volume of claims stressed an outdated system and the unprecedented economic impact warranted rapid processing of claims. The rapid implementation of new unemployment benefit programs authorized by the CARES Act did not allow sufficient time to employ wage verification and other procedures. Other procedures to verify client identity, prior wages and overall eligibility were also weakened due to the unprecedented volume of claims and new procedures employed to expedite benefit payments. Lastly, the substantial increase in fraudulent claims activity is largely considered to be the result of sustained and targeted efforts impacting many states.

Claimant documentation requirements for the PUA program were not enforced during fiscal 2021.

**Effect:** Fraudulent unemployment insurance claims have been paid and DLT’s systems require further enhancements to timely identify fraudulent benefit claims prior to disbursement. DLT remains at a critical juncture in developing a strategy to upgrade and modernize its unemployment insurance claims processing systems while ensuring compliance with federal program requirements including the prevention and detection of fraudulent benefit payments.

**Questioned Costs:** \$28,905

**Valid Statistical Sampling:** Yes

## **RECOMMENDATIONS**

- 2021-047a Enhance procedures to timely identify fraudulent claims by strengthening controls within the legacy claims processing system as well as using data analytics tools/process outside of the legacy system.
- 2021-047b Implement a strategic plan to address the required modernization of the unemployment benefit claims processing system.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

### ***Finding 2021-048 (material noncompliance / material weakness – repeat finding – 2020-031)***

#### **UNEMPLOYMENT INSURANCE – 17.225**

Federal Award Agency: Department of Labor (DOL), Employment and Training Administration

Federal Award Fiscal Years: Not Applicable

Federal Award Numbers: Not Applicable – Direct payments with Unrestricted Use Funded through U.S. Treasury Trust Fund

Administered by: Department of Labor and Training (DLT)

***Compliance Requirement: Special Tests and Provisions***

#### **UNEMPLOYMENT INSURANCE PROGRAM INTEGRITY – BENEFIT OVERPAYMENTS**

**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 had previously found that the State was not 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. Overpayments must be established and communicated to the recipient to initiate collection.

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 Unemployment Compensation (UC) account when the overpayment was the result of the employer’s failure to respond timely or adequately to a request for information.

**Cause:** Due to the increased fraudulent activity in UI claims, the department was unable to keep up with the establishment of overpayments due to claimant fraud. DLT management had previously advised us they were programming the existing benefit system to impose penalties for overpayments due to fraud. This programming change was not made in fiscal 2021.

**Effect:** Noncompliance with federal and State laws as well as lost revenue on penalties not assessed.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

**RECOMMENDATION**

2021-048 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)).

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-049**

*(significant deficiency – new finding)*

**HIGHWAY PLANNING AND CONSTRUCTION CLUSTER – 20.205, 20.219**

Federal Award Agency: U.S. Department of Transportation (DOT), Federal Transit Administration (FTA)

Federal Award Fiscal Year: 2021

Federal Award Number: Not Applicable

Administered by: Rhode Island Department of Transportation (RIDOT)

***Compliance Requirement: Special Tests and Provisions – Quality Assurance Program***

**SPECIAL TESTS AND PROVISIONS – QUALITY ASSURANCE PROGRAM**

**Criteria:** A State DOT or LPA must have a quality assurance (QA) program, approved by FHWA, for construction projects on the NHS to ensure that materials and workmanship conform to approved plans and specifications. Verification sampling must be performed by qualified testing personnel employed by the State DOT, or by its designated agent, excluding the contractor (23 CFR sections 637.201, 637.205, 637.207, and 637.209).

RIDOT's Quality Assurance Program should be updated to reflect current testing procedures.

**Condition:** The last formally approved quality assurance program (i.e., Master Schedule of Tests (MST)) was in 2012. RIDOT submitted an updated plan in 2016 but only received verbal approval. There have been numerous changes to the MST, making both the 2012 and 2016 versions not reflective of the current program.

Testing of the Quality Assurance program identified 4 of 81 items tested not meeting the criteria identified in the Master Schedule of Tests as follows:

- One test was not documented in the project’s material test book, nor had it been provided to the Resident Engineer for review;
- Two required tests were not performed;
- The test identified in the materials test book did not agree to the same test requirement per the Master Schedule of Tests. However, the materials were in conformance with the respective requirement.

**Cause:** Department personnel responsible for the QA Program have not focused on the administrative/federal approval aspects of the program to ensure compliance with all federal requirements.

The Master Schedule of Tests has been loaded into the Project Management Portal (PMP) as templates; however, the proper template must be selected for each required test to be included in the project’s Material Test Book. The individual creating the Material Test Book (MTB) can also manually modify the selected templates once loaded into the MTB. This weakens overall controls to ensure materials conform to approved plans and specifications. Due to the number of materials and required tests loaded into the Material Test Book, a second or supervisory review of all materials test is impractical.

The controls put in place over the Quality Assurance Program do not ensure that responsible Department personnel are notified when there is a missing test or failed test for materials put in place.

**Effect:** Controls over the quality assurance program are not adequate to ensure materials used in the construction of roads and bridges meet RIDOT’s and FHWA standards.

**Questioned Costs:** \$25,422

**Valid Statistical Sampling:** Yes

**RECOMMENDATIONS**

- |           |  |
|-----------|--|
| 2021-049a | Obtain formal approval of the Department’s Quality Assurance Program.  |
| 2021-049b | Enhance coordination among the three sections of RIDOT that have shared responsibility for the overall operation of the Department’s Quality Assurance Program. Enhance training for all project-related staff on the requirements of the Quality Assurance Program (23 CFR 637.205) and the Department’s related policies, procedures and controls. |

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*



**Finding 2021-050**

**(significant deficiency – new finding)**

**HIGHWAY PLANNING AND CONSTRUCTION CLUSTER – 20.205, 20.219**

Federal Award Agency: U.S. Department of Transportation (DOT), Federal Transit Administration (FTA)

Federal Award Fiscal Year: 2021

Federal Award Number: Not Applicable

Administered by: Rhode Island Department of Transportation (RIDOT)

**Compliance Requirement: Special Tests and Provisions – Administration of Engineering and Design-Related Service Contracts**

**SPECIAL TESTS AND PROVISIONS – ADMINISTRATION OF ENGINEERING AND DESIGN-RELATED SERVICE CONTRACTS**

**Criteria:** State DOTs must use qualifications-based selection procedures (Brooks Act) when acting as contracting agencies to procure engineering and design-related services from consultants and sub-consultants for projects using federal highway funds (23 USC 112(b)(2); 23 CFR Part 172). Requirements applicable to engineering and design-related services contracts include:

Department policies and procedures for the administration of engineering and design-related service contracts require written approval from FHWA.

- Contracting agencies (state DOTs and LPAs) must have written policies and procedures for each method of procurement used to procure engineering and design services. State DOT policies and procedures, or recipient LPA policies and procedures, must be approved by FHWA. LPAs that are subrecipients may adopt written policies and procedures prescribed by the awarding State DOT or prepare and maintain their own written policies and procedures approved by the State DOT (23 CFR section 172.5(b)).
- Contracting agencies (state DOTs and LPAs) are required to accept the indirect cost rates for consultants and sub-consultants that have been established by a cognizant agency in accordance with the Federal Acquisition Regulation (48 CFR Part 31) for one-year applicable accounting periods if such rates are not currently under dispute. Consultants and sub-consultants providing engineering and design related services contracts must certify to contracting agencies that costs used to establish indirect cost rates are in compliance with the applicable cost principles contained in the Federal Acquisition Regulation (48 CFR Part 31) by submitting a “Certificate of Final Indirect Costs” (23 USC 112(b)(2)(C); 23 CFR section 172.11(c)(3)).

**Condition:** The Department was unable to provide the required FHWA approval of the Department’s written policies and procedures for procurement of engineering and design services.

The Department was unable provide the Certificate of Final Indirect Costs for 2 of 25 vendors selected for testing (1 railroad and 1 utility company).

**Cause:** The Department did not request FHWA’s approval of its written policies and procedures for procurement of engineering and design services.

The State’s Office of Internal Audit (OIA) performs indirect cost rate reviews and obtains the Certificate of Final Indirect Costs for other contractors but does not review the indirect cost rates for railroads or utility companies. Other documentation of indirect cost rate approval was not obtained for railroads or utility companies.

**Effect:** The Federal Highway Administration (FHWA), the grantor agency, may not concur with the Department’s policies and procedures.

**Questioned Costs:** None

**Valid Statistical Sampling:** None

**RECOMMENDATIONS**

2021-050a Obtain FHWA approval of RIDOT’s written policies and procedures for procurement of engineering and design services. Incorporate the approval letter into the policy and procedures manual.

2021-050b Ensure the indirect cost rate reviews are performed for utility and railroad vendors.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-051**

*(significant deficiency – new finding)*

**FEDERAL TRANSIT CLUSTER – 20.500, 20.507, 20.525, 20.526**

Federal Award Agency: U.S. Department of Transportation (DOT), Federal Transit Administration (FTA)

Federal Award Fiscal Years: 2012, 2014, 2018, 2019

Federal Award Numbers: RI040009, RI050104, RI050106, RI550001, RI2016002, RI2019002

Administered by: Department of Transportation (RIDOT)

***Compliance Requirement: Period of Performance***

**CONTROLS OVER PERIOD OF PERFORMANCE**

**Criteria:** The Department must expend or obligate federal awards within the period specified for each award. The Federal Transit Administration’s Circular 5010-1E (revised July 16, 2018) states “Period of performance means the time during which the recipient or subrecipient may incur new obligations to carry out the scope of work authorized under the Grant or Cooperative Agreement.” The Department obligates funds via purchase orders, contracts, or memorandums of understanding. For funds not formally obligated, the expenditures must be incurred during the specified period of performance.

RIDOT’s controls are insufficient to ensure Federal Transit Cluster funds are expended or obligated within the applicable period of performance.

**Condition:** The Department’s controls are insufficient to ensure FTA awards are expended or obligated within the applicable period of performance.

We tested expenditures applied to 10 of the 12 federal awards with expenditures incurred during fiscal 2021. We reviewed eight purchase orders that related to those expenditures (94% of the expenditures). The documentation (purchase order, contract or memorandum of understanding) for five of the eight purchase orders tested did not provide sufficient information (missing federal award numbers) to determine that federal awards: RI040009, RI550001, RI050104, RI050106, RI2016002, RI2016009, RI2019001, RI2019007 and RI2019008 were obligated during the period of performance.

Comprehensive procedures to track the periods of performance for each open grant have not been implemented by RIDOT.

FTA requires RIDOT to perform milestone reporting on a quarterly basis. Those quarterly milestone reports include the updated project completion dates and confirmation that FTA reviewed the updates. Through the milestone reporting process, FTA effectively approved the extension of the period of performance for grants tested during our audit period. This cleared most expenditures which initially



appeared to be outside of the period of performance. A journal entry for grant RI55001 totaling \$7,470 remained outside the period of performance for that award and is therefore questioned.

RIDOT should implement procedures to track the period of performance for each open FTA award and incorporate any extension information that is a byproduct of the FTA milestone reporting process.

**Cause:** The Department did not demonstrate a sufficient understanding of FTA period of performance compliance requirements to design and support controls to ensure compliance. Consequently, controls have not been sufficiently implemented to meet those compliance objectives.

**Effect:** Expenditures could be applied to federal awards when the period of performance has ended resulting in disallowed costs.

**Questioned Costs:** RI550001 \$7,470

**Valid Statistical Sampling:** Not Applicable

**RECOMMENDATIONS**

2021-051a Enhance the understanding of FTA period of performance compliance objectives and requirements for key personnel to support the design of controls to ensure compliance.

2021-051b Implement procedures to track the period of performance for each open FTA award and include relevant information from the FTA milestone reporting process which impacts period of performance timelines.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-052**

*(material weakness – new finding)*

**FEDERAL TRANSIT CLUSTER – 20.500, 20.507, 20.525, 20.526**

Federal Award Agency: U.S. Department of Transportation (DOT)

Federal Award Fiscal Years: 2020, 2021

Federal Award Numbers: RI 2020-005-00, RI 2020-007-00, RI 2020-009-00, RI 2021-001-00

Administered by: Rhode Island Public Transit Authority (RIPTA)

**Compliance Requirement: Allowable Costs/Cost Principles**

**RHODE ISLAND PUBLIC TRANSIT AUTHORITY – ALLOWABLE COSTS/COST PRINCIPLES**

**Criteria:** The grant awards include CARES Act emergency relief operating assistance, which is available for all operating activities (net of fare revenues and other operating reimbursements) incurred on or after January 20, 2020 for fixed route, demand response, ADA paratransit and shuttle services. The operating expense reimbursements should be determined and documented in accordance with Uniform Guidance (2 CFR 200) Subpart E – Cost Principles and FTA Circular 9030.1E including the requirement that costs be accounted for in accordance with generally accepted accounting principles and be adequately documented.

**Condition:** During our test of internal controls, we noted that costs related to four operating expense reimbursements were determined for a period using fixed route statistics which included average costs per mile and hour, less preventative maintenance and farebox recovery. We also noted that documentation for three operating expense reimbursements for a period included only the payroll reports for fixed route drivers plus benefits, calculated using a fringe benefit percentage rate, and there was no documentation that fare revenues and other operating reimbursements had been deducted from the operating expense reimbursement.

**Cause:** The Rhode Island Public Transit Authority did not account for CARES Act operating expense reimbursements in accordance with generally accepted accounting principles and did not adequately document CARES Act operating expense reimbursements.

**Effect:** The Rhode Island Public Transit Authority has not accounted for and documented CARES Act operating expense reimbursements in accordance with Uniform Guidance (2 CFR 200) Subpart E – Cost Principles and FTA Circular 9030.1E.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

**RECOMMENDATION**

2021-052      We recommend that CARES Act operating expense reimbursements be prepared utilizing the Rhode Island Public Transit Authority's general ledger which is prepared in accordance with generally accepted accounting principles and documented using a worksheet prepared in accordance with FTA Circular 9030.1E, that excludes ineligible costs and deducts fares and other operating expense reimbursements.

**Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

**Finding 2021-053**

**(significant deficiency – new finding)**

**FEDERAL TRANSIT CLUSTER – 20.500, 20.507, 20.525, 20.526**

Federal Award Agency: U.S. Department of Transportation (DOT)

Federal Award Fiscal Years: 2020

Federal Award Numbers: RI 2020-012-00

Administered by: Rhode Island Public Transit Authority (RIPTA)

**Compliance Requirements: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Period of Performance**

**RHODE ISLAND PUBLIC TRANSIT AUTHORITY – ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, AND PERIOD OF PERFORMANCE**

**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:** The Rhode Island Public Transit Authority 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. The Rhode Island Public Transit Authority’s internal control procedure to ensure compliance with these requirements is the approving initials of the Chief of Strategic Advancement or his designee and the approving initials of the Executive Director of Budget and Finance or his designee on the capital supply or operating requisition. During our testing of internal controls, we noted that an approved requisition could not be located for one of the forty transactions selected.

**Cause:** The Rhode Island Public Transit Authority did not follow established internal control policies and procedures for requisition approval.

**Effect:** The Rhode Island Public Transit Authority has no documentation on file to demonstrate compliance with internal control policies and procedures related to activities allowed or unallowed, allowable costs/cost principles, and period of performance requirements for this transaction.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

**RECOMMENDATION**

2021-053 We recommend that the Rhode Island Public Transit Authority ensure a properly approved requisition form is prepared for all federal award 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 2021-054**

**(significant deficiency – repeat finding – 2020-036)**

**FEDERAL TRANSIT CLUSTER – 20.500, 20.507, 20.525, 20.526**

Federal Award Agency: U.S. Department of Transportation (DOT)

Federal Award Fiscal Year: 2020

Federal Award Number: RI 2019-010-00

Administered by: Rhode Island Public Transit Authority (RIPTA)

**Compliance Requirement: Subrecipient Monitoring**

**RHODE ISLAND PUBLIC TRANSIT AUTHORITY – SUBRECIPIENT MONITORING**

**Criteria:** A pass-through entity must establish policies and procedures to ensure subrecipients are properly monitored. Procedures should include identifying the award and applicable requirements; evaluating a subrecipient’s risk of noncompliance to determine appropriate monitoring related to the subaward; and monitoring the subrecipient to ensure the subaward is used for the authorized purposes, complies with the term and conditions of the subaward and achieves performance goals.

**Condition:** During the process of obtaining an understanding of the internal controls over subrecipient monitoring, we determined that the Rhode Island Public Transit Authority has established policies and procedures for subrecipient monitoring in accordance with Uniform Guidance. These policies and procedures, however, were not properly adhered to for a subaward that was active during the 2021 fiscal year. The grant award notice and subrecipient agreement were not executed in a timely manner and quarterly and final reports were not submitted during fiscal year 2021 as required by the subrecipient agreement.

**Cause:** The Rhode Island Public Transit Authority did not follow established subrecipient monitoring policies and procedures.

**Effect:** The subrecipient was not properly notified of the award details or applicable requirements and was not properly monitored during the year.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

**RECOMMENDATION**

2021-054 We recommend that the Rhode Island Public Transit Authority ensure its established policies and procedures are followed and that subaward activities not begin until the grant award notice and subrecipient agreement have been properly executed. We also recommend that the formal monitoring procedures described in its subrecipient policy be performed and documented.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-055**

**(significant deficiency – new finding)**

**FEDERAL TRANSIT CLUSTER – 20.500, 20.507, 20.525, 20.526**

Federal Award Agency: U.S. Department of Transportation (DOT)

Federal Award Fiscal Year: 2020

Federal Award Number: RI 2020-008-00

Administered by: Rhode Island Public Transit Authority (RIPTA)

**Compliance Requirement: Allowable Costs/Cost Principles**

**RHODE ISLAND PUBLIC TRANSIT AUTHORITY – ALLOWABLE COSTS/COST PRINCIPLES**

**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:** During our testing of internal controls, we noted that documentation for one of the forty transactions selected was incomplete. The transaction was a preventative maintenance reimbursement and the accounting system reports to support parts and towing expenses could not be located.

**Cause:** The Rhode Island Public Transit Authority did not follow established internal control policies and procedures relating to documentation of charges to federal programs.

**Effect:** The Rhode Island Public Transit Authority has incomplete documentation on file for this transaction.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

**RECOMMENDATION**

2021-055      We recommend that the Rhode Island Public Transit Authority ensure proper documentation is prepared and maintained for all federal award program expenses in accordance with the cost principles.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-056**

**(significant deficiency – new finding)**

**FEDERAL TRANSIT CLUSTER – 20.500, 20.507, 20.525, 20.526**

Federal Award Agency: U.S. Department of Transportation (DOT)

Federal Award Fiscal Year: 2021

Federal Award Number: RI 2021-003-00

Administered by: Rhode Island Public Transit Authority (RIPTA)

**Compliance Requirement: Allowable Costs/Cost Principles**

**RHODE ISLAND PUBLIC TRANSIT AUTHORITY – ALLOWABLE COSTS/COST PRINCIPLES**

**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:** During our testing of internal controls, we noted that the documentation for one service reimbursement to the Rhode Island Public Transit Authority’s operating fund contained errors resulting in the incorrect calculation of the reimbursement amount. We also noted that the documentation maintained in the grant file for the reimbursement was not in sufficient detail to support the reimbursement calculation.

**Cause:** The Rhode Island Public Transit Authority did not detect the errors in the calculation of the reimbursement and did not follow established internal control policies and procedures relating to documentation of charges to federal award programs.

**Effect:** The Rhode Island Public Transit Authority has inaccurate and incomplete documentation on file for this transaction.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

**RECOMMENDATION**

2021-056 We recommend that Rhode Island Public Transit Authority ensure an individual independent of the preparation process perform a detailed review of all service reimbursements and related cost factor calculations and approve the reimbursement request prior to it being submitted to the FTA. We also recommend that Rhode Island Public Transit Authority ensure proper documentation is prepared and maintained for all federal award program expenses in accordance with the cost principles.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-057**

**(significant deficiency – new finding)**

**FEDERAL TRANSIT CLUSTER – 20.500, 20.507, 20.525, 20.526**

Federal Award Agency: U.S. Department of Transportation (DOT)

Federal Award Fiscal Year: 2016, 2017

Federal Award Number: RI 2016-005-00, RI 2017-001-00

Administered by: Rhode Island Public Transit Authority (RIPTA)

**Compliance Requirement: Activities Allowed or Unallowed; Allowable Costs/Cost Principles**

**RHODE ISLAND PUBLIC TRANSIT AUTHORITY – ACTIVITIES ALLOWED OR UNALLOWED,  
ALLOWABLE COSTS/COST PRINCIPLES**

**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.

**Condition:** The Rhode Island Public Transit Authority has internal control policies and procedures in place to ensure compliance with activities allowed or unallowed and allowable costs/cost principles. The Rhode Island Public Transit Authority’s internal control procedure to ensure compliance with these requirements is the approving initials of the Chief of Strategic Advancement or his designee and the approving initials of the Executive Director of Budget and Finance or his designee on the capital supply or operating requisition. During our testing of internal controls, we noted that although a requisition was properly approved for three charges to federal award programs, the specific items were not included in the grant budget. The charges were for three 29 foot buses, but the grant budgets only included an expense line for 40 foot buses.

**Cause:** The Rhode Island Public Transit Authority did not follow established internal control policies and procedures for requisition approval.

**Effect:** The Rhode Island Public Transit Authority charged items to grants that were not approved in the budget.

**Questioned Costs:** RI 2016-005-00 - \$741,791; RI 2017-001-00 - \$475,676

**Valid Statistical Sampling:** Not Applicable

**RECOMMENDATION**

2021-057      We recommend that more care be taken when reviewing and approving requisitions to ensure only charges included in the grant budget are approved or that approval from FTA be obtained to amend the grant agreement to include any changes in planned spending.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*



**Finding 2021-058**

**(material weakness – repeat finding – 2020-033)**

**CORONAVIRUS RELIEF FUND – 21.019**

Federal Award Agency: U.S. Department of the Treasury (TREAS)

Federal Award Fiscal Year: 2020

Federal Award Numbers: SLT0005 and SLT0227

Administered by: Department of Administration (DOA) – Pandemic Recovery Office

**Compliance Requirement: Activities Allowed or Unallowed**

**CONTROLS OVER CENTRALIZED APPROVAL OF EXPENDITURES TO THE CORONAVIRUS RELIEF FUND**

**Background:** The State created the Pandemic Recovery Office (PRO) to oversee the distribution of Coronavirus Relief Funds and provide guidance to State agencies and departments regarding allowable uses of the CRF funding. The PRO implemented a centralized review and pre-approval process for projects and activities funded by the CRF and other CARES Act funding. This process had three primary phases: (1) review of the initial project design; (2) determination of compliance as an allowable activity as per the federal guidance issued; and (3) governance. Personnel within the Department of Administration’s Grants Management Office, PRO, Office of Internal Audit and the Office of Management and Budget were utilized for the various phases. The projects and activities proposed were captured in a centralized database that also maintained certain required documentation, such as the departmental proposal descriptions and estimated budgets.

Controls over final centralized approval of expenditures funded by the Coronavirus Relief Fund (CRF) should be improved.

Once projects were approved through the centralized process, departmental CFOs were responsible for ensuring that expenditures complied with federal guidance.

**Criteria:** Management is responsible for designing and maintaining internal controls over compliance with federal requirements for activities allowed or unallowed. Controls should be sufficient to ensure that all uses of federal funding meet the applicable allowability criteria.

**Condition:** The State addressed the need to centralize a CRF review and approval process through the PRO. However, the project database utilized was designed to facilitate approval at a preliminary proposal phase, but not document either the preliminary project approval or final approval of amounts ultimately charged to the CRF. Further, a significant portion of the expenditures ultimately charged to CRF funding were not subject to this proposal phase review and pre-approval process. Most of these expenditures were not project-based but were for categorically allowable public health and public safety payroll expenditures. State departments and agencies were responsible for making the allowability determinations based on guidance issued by the Pandemic Recovery and State Budget Offices.

Departments and agencies were provided guidance which were effective in summarizing the federal requirements and providing practical guidelines. Departments and agencies were largely responsible for correctly applying the policies without subsequent centralized review for compliance.

**Cause:** The PRO centralized process did not extend to final approval of amounts charged to and reimbursed from the CRF. The determination of allowable CRF grant expenditures was further complicated by continual updates to federal guidance regarding permitted uses.

**Effect:** Expenditures could be charged to and reimbursed from the CRF that do not meet the criteria for allowable activities and expenditures.

**Questioned Costs:** None



**Valid Statistical Sampling:** Yes

**RECOMMENDATION**

2021-058      Ensure that all CRF expenditures and activities charged by the departments and agencies are consistent with the PRO centralized project and program approval process.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-059**

**(other noncompliance - questioned cost only – new finding)**

**CORONAVIRUS RELIEF FUND – 21.019**

Federal Award Agency: U.S. Department of the Treasury (TREAS)

Federal Award Fiscal Year: 2020

Federal Award Numbers: SLT0005 and SLT0227

Administered by: Department of Administration (DOA), Executive Office of Health and Human Services (EOHHS)

***Compliance Requirement: Activities Allowed or Unallowed***

**ACTIVITIES ALLOWED OR UNALLOWED**

**Criteria:** U.S. Treasury guidance and federal regulations define eligible costs under the Coronavirus Relief Fund (CRF). The Fund is authorized by the CARES Act, Pub. L. No. 116-136, Division A, Title V (2020) (codified as 42 USC 801 et seq.), as amended by the Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, Division N, Title X, Section 1001. Permitted uses are further outlined in Federal Register notice 86 FR 4182 (Jan. 15, 2021)

Questioned costs were identified for certain expenditures reimbursed from the Coronavirus Relief Fund program.

**Condition:** Legal case tracking software costs totaling \$508,000 was charged to CRF and are questioned. The project to implement this software began prior to the pandemic and, while the software is needed for operational reasons, we believe the need for the software is not specifically COVID related.

**Cause:** The federal guidelines and regulations defining allowable activities under the CRF program ultimately must be applied to a variety of types of expenditures and therefore involve interpretation.

**Effect:** Expenditures charged to the Coronavirus Relief Fund (at June 30, 2021) are overstated.

**Questioned Costs:** \$508,000

**Valid Statistical Sampling:** Not Applicable

**RECOMMENDATION**

2021-059      Restore the questioned costs to the balance of CRF fund pending disbursement or reimburse the federal government.

**Auditee views:** *The auditee disagrees with this finding – see Corrective Action Plan in Section E.*

**Auditor response:** *Final determination regarding resolution of questioned costs rests with the federal grantor.*

**Finding 2021-060**

*(material weakness – new finding)*

**CORONAVIRUS RELIEF FUND – 21.019**

Federal Award Agency: U.S. Department of the Treasury (TREAS)

Federal Award Fiscal Year: 2020

Federal Award Numbers: SLT0005 and SLT0227

Administered by: Various Departments and Agencies

**Compliance Requirement: Subrecipient Monitoring**

**SUBRECIPIENT MONITORING**

**Background:** During fiscal 2021, the State passed-through approximately \$220 million of CRF funds to subrecipients – primarily local governments and non-for-profit entities.

The State has not implemented sufficient overall subrecipient monitoring activities for Coronavirus Relief Fund amounts passed-through to subrecipients.

**Criteria:** Management is responsible for monitoring subrecipients to ensure compliance with program requirements. Controls should be sufficient to ensure that all uses of federal funding by subrecipients meet the applicable allowability criteria. Single audit reports available for subrecipient entities should be obtained and reviewed timely – when required, management decisions on applicable findings must be issued within 180 days.

**Condition:** A significant amount of CRF pass-through awards were made to subrecipients during fiscal 2021. Some included provisions to support the award by providing documentation of qualifying public safety expenditures made by the subrecipient. Other awards were more general to provide specific COVID pandemic mitigation type services. In some instances, sub-awards were made with requirements to collect performance or other measurement data subsequent to the award. In these instances, there was inconsistent collection and centralization of this data as required by the contract between the State and these entities.

The State did not implement a comprehensive subrecipient monitoring effort for CRF amounts passed-through to subrecipients. There were efforts performed by the Office of Internal Audit to assess compliance with the subaward provisions which were primarily directed to the Hospital Assistance Program and the Workforce Stabilization grants. Other sub-awards were administered by various departments and agencies without a consistent or centralized approach or expectation of subrecipient monitoring. There was no centralized effort to obtain or review single audit reports for local governments or non-profit entities receiving CRF pass-through amounts. For example, the hospitals which participated in the CRF funded Hospital Assistance Program did have single audits performed which appropriately identified the CRF subaward from the State and identified the CRF program as a major program tested for compliance. These reports were not obtained or reviewed by the State.

**Cause:** The State did not implement a comprehensive subrecipient monitoring process for CRF funds passed-through to subrecipients.

**Effect:** Amounts paid to subrecipients may be used for activities not allowed by the Coronavirus Relief Fund guidelines and regulations

**Questioned Costs:** None

**Valid Statistical Sampling:** Yes

**RECOMMENDATION**

2021-060 Obtain and review single audit reports for subrecipients receiving subawards of CRF funds. Issue timely management decisions when required.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

***Finding 2021-061***

***(material weakness – new finding)***

**CORONAVIRUS RELIEF FUND – 21.019**

Federal Award Agency: U.S. Department of the Treasury (TREAS)

Federal Award Fiscal Year: 2020

Federal Award Numbers: SLT0005 and SLT0227

Administered by: Department of Administration (DOA); Executive Office of Health and Human Services (EOHHS)

**EPIDEMIOLOGY AND LABORATORY CAPACITY FOR INFECTIOUS DISEASES (ELC) – 93.323**

Federal Award Agency: U.S. Department of Health and Human Services (HHS)

Federal Award Fiscal Year: 2019-2024

Federal Award Number: NU50CK000519

Administered by: Rhode Island Department of Health (RIDOH)

**DISASTER GRANTS – PUBLIC ASSISTANCE (PRESIDENTIALLY DECLARED DISASTERS) – 97.036**

Federal Award Agency: U.S. Department of Homeland Security (DHS), Federal Emergency Management Agency (FEMA)

Federal Award Fiscal Year: Not Applicable

Federal Award Number: Not Applicable

Administered by: Rhode Island Emergency Management Agency (RIEMA)

***Compliance Requirement: Activities Allowed or Unallowed***

**CONTROLS OVER PANDEMIC-RELATED EXPENDITURES ALLOCABLE TO MULTIPLE FEDERAL AWARDS**

**Background:** The State received an unprecedented amount of federal assistance to respond to the effects of the global pandemic including \$1.25 billion for the Coronavirus Relief Fund (CRF) pursuant to the CARES Act. Assistance was also received under the FEMA program and the Epidemiology and Laboratory Capacity Program. Certain costs were reimbursable under any of these programs and federal guidance was continually evolving which resulted in changing direction as to costs to be applied to a specific federal award. As guidelines and circumstances changed expenditures were often applied to one funding source and then adjusted subsequently to another funding source.

The State had insufficient controls to ensure expenditures were not reimbursed from more than one award under federal programs with similar pandemic response related objectives.

**Criteria:** Expenditures may only be reimbursed from one federal award.

**Condition:** Due to continuing changing federal guidelines and the continually evolving State response to the pandemic eligible program, costs were often charged to one funding source and then later moved to another funding source. When activity is moved within the RIFANS accounting system, journal entries are used to move the aggregate dollar activity; however, the original transaction (expenditure/disbursement) remains in the account originally charged offset by a credit. This process complicates the identification of the underlying expenditures reimbursed by the federal award and increases the risk that expenditures could

be reimbursed from more than one federal award. See financial statement finding 2021-013 - Reconciliation of Coronavirus Relief Fund and Controls to Ensure Expenditures Were Not Reimbursed from Multiple Federal Funding Sources

Controls were insufficient to ensure that costs were not reimbursed from more than one federal award. The State's process for recording accounting adjustments via aggregate dollar journal entries limits the effectiveness of controls to prevent duplicate reimbursement from federal funding sources.

Reconciliations to adequately identify any potential duplicate reimbursement were incomplete during fiscal 2021 but continued after the close of the fiscal year. Numerous journal entries were subsequently processed in fiscal 2022 to adjust CRF activity for expenditures claimed in fiscal 2021 and fiscal 2020 to other federal funding sources (principally FEMA and ELC).

**Cause:** Due to the rapid response required during the pandemic, the existence of multiple federal funding sources, and continually evolving federal guidance, costs were moved and adjusted in the accounting system to various funding sources which increased the risk that a cost could be reimbursed from more than one federal award.

**Effect:** Potential duplicate reimbursement of expenditures from more than one federal award. Misstatement of CRF and other federal program reported expenditures could occur.

**Questioned Costs:** Not Determined

**Valid Statistical Sampling:** Not Applicable

#### RECOMMENDATION

2021-061      Ensure reconciliations and any required adjustments are complete to demonstrate that eligible COVID program costs were not reimbursed from more than one federal funding source.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

#### **Finding 2021-062**

*(material weakness – new finding)*

#### **EPIDEMIOLOGY AND LABORATORY CAPACITY FOR INFECTIOUS DISEASES (ELC) – 93.323**

Federal Award Agency: U.S. Department of Health and Human Services (HHS)

Federal Award Fiscal Year: 2019-2024

Federal Award Number: NU50CK000519

Administered by: Rhode Island Department of Health (RIDOH)

***Compliance Requirements: Activities Allowed and Unallowed; Allowable Costs/Cost Principles***

#### **TIME AND EFFORT REPORTING**

**Background:** RIDOH has built robust, but complex, time reporting worksheets for employees to allocate their time spent on various activities during the week. Reconciliation of the hours worked versus the hours charged to the State's payroll system and accounting system is performed on a quarterly basis, and amounts recorded are adjusted

RIDOH can enhance monitoring controls over time and effort reporting to ensure payroll cost allocations are adequately supported by employee timesheets.

accordingly, to ensure charges in the accounting system are consistent with actual time spent on the various activities.

**Criteria:** 45 CFR 75.430(i)(1) requires that “Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed.”

**Condition:** Amounts allocated to federal programs for personnel costs were not consistently supported by timesheets. Official signed copies of employee timesheets are retained within the Department; however, there is not a centralized repository for maintaining these records. The signed timesheets were kept by the section supervisors within the various groups within the Department. Due to significant staff turnover within the Department and the overall challenges of managing the State’s response to the pandemic, RIDOH was unable to provide the signed timesheets for 12 of the 29 selected biweekly pay periods. RIDOH was, however, able to provide the quarterly workbooks for all selected pay periods.

We noted several instances where employees had reported time spent on COVID response and had allocated those hours to the Coronavirus Relief Fund (CRF) but were actually charged to ELC in the State’s payroll system and accounting system. RIDOH indicated that CRF funds were no longer used for payroll charges after the week ended January 2, 2021; however, employees continued to allocate their time to CRF on their timesheets. Additionally, several employees allocated their time to a general emergency response activity for COVID-19, but there was no corresponding account shown on the timesheet to determine the appropriate funding source. RIDOH allocated these hours based on the employee’s work stream (where in the Department they work, and what activities), but this was undeterminable from the timesheet that should be supportive of these charges. We also reviewed the quarterly reconciliations and determined that the adjustments made, and the resulting payroll charges in the accounting system, appear to accurately represent the actual time spent on various activities under Federal awards.

**Cause:** The challenges in responding to the COVID-19 pandemic dramatically increased the amount of cost and payroll allocations to the various COVID related federal programs. The State’s lack of an integrated time and effort reporting system necessitates that these payroll allocations be largely processed offline through complex Excel spreadsheets which support journal entries. The increased volume and complexity combined with the use of Excel resulted in weakened controls over payroll allocations.

RIDOH, anticipating there would likely be adjustments to the various funding sources, instructed employees to allocate their time to the appropriate work activity on their timesheets rather than a specific funding source.

**Effect:** Personnel costs reimbursed from Federal awards could be unallowable due to insufficient support and documentation.

**Questioned Costs:** None

**Valid Statistical Sampling:** Yes

**RECOMMENDATIONS**

- |           |   |
|-----------|---|
| 2021-062a | Establish a central location within RIDOH to maintain official signed timesheets to support payroll charges against Federal awards.                                 |
| 2021-062b | Enhance monitoring controls over the weekly reporting of time and effort to ensure that hours allocated on the timesheet were representative of the work performed. |

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-063**

*(significant deficiency – new finding)*

**EPIDEMIOLOGY AND LABORATORY CAPACITY FOR INFECTIOUS DISEASES (ELC) – 93.323**

Federal Award Agency: U.S. Department of Health and Human Services (HHS)

Federal Award Fiscal Year: 2019-2024

Federal Award Number: NU50CK000519

Administered by: Rhode Island Department of Health (RIDOH)

**Compliance Requirement: Subrecipient Monitoring**

**SUBRECIPIENT MONITORING - AUDIT REPORTS**

**Criteria:** 45 CFR 75.352(d) *Requirements for pass-through entities*, requires that 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. Pass-through entity monitoring must include:

RIDOH can enhance its monitoring of subrecipients to ensure compliance with federal program requirements.

- (1) Reviewing financial and performance reports.
- (2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.
- (3) Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required by §75.521.”

**Condition:** The Executive Office of Health and Human Services previously evaluated subrecipient audit reports for the departments within the secretariat, including RIDOH. However, this process was not performed during fiscal 2021. Additionally, RIDOH did not conduct a separate review of subrecipient audit reports.

**Cause:** The COVID-19 public health emergency, combined with staff turnover, significantly impacted monitoring activities that are typically performed under more normal circumstances, as staff focused on responding to the effects of the public health emergency.

**Effect:** Subrecipients may not comply with federal requirements when expending pass-through awards.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

**RECOMMENDATION**

2021-063      Ensure all subrecipients are identified to allow for timely collection and review of subrecipient single audit reports.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*



**Finding 2021-064**

*(material weakness – repeat finding – 2020-041)*

**TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – 93.558**

Federal Award Agency: Department of Health and Human Services (HHS), Administration for Children and Families

Federal Award Fiscal Years: 2020 and 2021

Federal Award Numbers: G2002RITANF and G2102RITANF

Administered by: Department of Human Services (DHS)

**Compliance Requirement: Eligibility**

**TANF ELIGIBILITY – RIBRIDGES**

**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.

The State can improve compliance with TANF eligibility requirements specifically by ensuring consistent documentation of eligibility components within RIBridges.

**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:** Documentation in RIBridges was insufficient to support eligibility for many of the cases tested. 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.

***Sample 1 – Eligible cases (households) within RIBridges during fiscal 2021***

**Population – 29,962 cases, \$12,827,942 in benefits paid**

Sample Size	Number of Exceptions	Exception type	Error Rate	Known Questioned Costs*
59	17*	Exceptions related to nonconformance with established eligibility process and/or control procedures, including documentation deficiencies - no eligibility impact or undetermined eligibility impact	29%	None

***Exceptions – nonconformance with established eligibility process and/or control procedures (control exception without impact on eligibility):***

- Identification documents for all household members were not scanned to the system (17 instances). Two cases contained individuals whose social security numbers were not verified by the SSA interface.

\* Represents the number of cases containing errors; a case may have more than one error.

**Cause:** Most case errors noted resulted from worker noncompliance with documentation requirements for elements of eligibility determination. Additional focus and training are required to ensure consistent documentation of eligibility components within RIBridges.

**Effect:** Ineffective controls over the eligibility process for TANF increase the potential for payment of benefits to ineligible families and/or payment of incorrect benefit amounts.

**Questioned Costs:** None

**Valid Statistical Sampling:** Yes

**RECOMMENDATION**

2021-064 Continue efforts to ensure that all required eligibility compliance requirements are documented within RIBridges.

***Auditee views:*** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

***Finding 2021-065***

*(significant deficiency – repeat finding – 2020-049)*

**CCDF CLUSTER – 93.575, 93.596**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2020 and 2021

Federal Award Numbers: G2001RICCDF and G2101RICCDF

Administered by: Department of Human Services (DHS)

***Compliance Requirement: Eligibility***

**CONTROLS OVER ELIGIBILITY, INCOME VALIDATION, AND DETERMINATION OF PARENT COST-SHARING AMOUNTS**

**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. RIBridges determines eligibility for a childcare subsidy and the amount of parental co-pay based on family income. Payments to licensed childcare providers are made through RIBridges.

RIBridges controls over eligibility determinations, income validation and calculation of required parent cost-sharing amounts require strengthening for the CCDF Cluster programs.

**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 childcare 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 childcare providers caring for subsidized children (45 CFR section 98.43).



**Condition:** RIBridges lacked effective income validation controls to determine program eligibility and potential family co-share amounts.

<i>Sample 1 – Eligible cases (households) within RIBridges during fiscal 2021</i>				
<b>Population – 293,949** payments to childcare providers, \$57,471,148 in benefits paid</b>				
Sample Size	Number of Exceptions	Exception type	Error Rate	Known Questioned Costs*
59	5	Exceptions related to nonconformance with established eligibility process and/or control procedures, including documentation deficiencies - no eligibility impact or undetermined eligibility impact.	8.5%	n/a
	8	Exceptions not impacting eligibility but resulting in incorrect determination of family income/family co-share.	13.6%	\$0***
<p><i>Questioned costs, when applicable and determined, represent the amounts paid to providers for ineligible cases or cases that should have been terminated, and/or amounts paid to providers that would have been paid by parents if co-shares had been properly calculated.</i></p> <p><i>** The population represents the number of payments made to childcare providers from all sources. Benefits paid is only federal Child Care funds.</i></p> <p><i>***Family copays were waived during fiscal 2021. While the family income/co-share may have been calculated incorrectly DHS committed to paying the family portion for the duration of FY21 and as result no questioned costs were identified as the providers were appropriately paid the correct amounts.</i></p>				

- Eight instances where the family income/co-share amount was incorrectly determined because payroll information was not entered or incorrectly entered.
- Documentation deficiencies consisted of five instances where the case lacked residency verification and/or income information.

**Cause:** Lack of controls over input of payroll information, resulting in improper co-share amounts being determined.

Additionally, case errors noted resulted from worker noncompliance with documentation requirements for elements of eligibility determination. Additional focus and training are required to ensure consistent documentation of eligibility components within RIBridges.

**Effect:** Parental income/co-shares were incorrectly determined for some cases. Controls over the administration of the program were weakened.

**Questioned Costs:** None

**Valid Statistical Sampling:** Yes

**RECOMMENDATION**

2021-065 Improve controls over CCDF eligibility determinations by ensuring appropriate consideration of parent earnings information for determination of parent co-shares and consistent inclusion of eligibility documentation in the electronic case record.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

**Finding 2021-066**

**(significant deficiency – new finding)**

**CCDF CLUSTER – 93.575, 93.596**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2020 and 2021

Federal Award Numbers: G2001RICCDF and G2101RICCDF

Administered by: Department of Human Services (DHS)

**Compliance Requirement: Reporting**

**REPORTING OF STATE MATCHING EXPENDITURES**

**Criteria:** ACF-696, Child Care and Development Fund Financial Report (OMB No 0970- 0510) is due quarterly from states and territories. These reports are in lieu of the SF-425, Federal Financial Report (financial status). Each fiscal year's expenditure report must be separate; therefore, multiple reports may be required if awards from more than one fiscal year are expended in each quarter.

Matching expenditures reported on the CCDF ACF-696 report for the 2021 grant period were inconsistent with data included in the RIFANS accounting system.

**Condition:** The ACF-696 report for the 2021 grant year contained an error. The amount of State funds expended towards its matching requirement was inconsistent with data included in the RIFANS accounting system. The variance was \$637,384. An adjustment made in the prior year inadvertently affected the 2021 report as well. The matching expenditures were compliant with federal requirements but were misreported on the ACF-696 report.

**Cause:** The amount reported on federal reports is not reconciled to the amount recorded in the State RIFANS accounting system.

**Effect:** State matching expenditures included on the ACF-696 report were inaccurate.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

**RECOMMENDATION**

2021-066 Improve controls over federal reporting by completing a reconciliation between reports and the state accounting system to detect reporting errors.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

**Finding 2021-067**

*(material weakness – new finding)*

**CCDF CLUSTER – 93.575, 93.596**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2020 and 2021

Federal Award Numbers: G2001RICCDF and G2101RICCDF

Administered by: Department of Human Services (DHS)

**Compliance Requirement: Special Tests and Provisions – Health and Safety Requirements**

**CONTROLS OVER MONITORING OF BACKGROUND CHECK REQUIREMENTS FOR CHILD CARE CENTERS**

**Background:** Upon initial application for licensure both family home providers and childcare centers are required to provide comprehensive background checks consisting of in-state criminal history, in-state sex offender registry, FBI fingerprint, and National Crime Information Center’s National Sex Offender Registry (NCIC NSOR) checks for all employees.

Controls over the monitoring of background check requirements for licensed childcare centers requires strengthening.

**Criteria:** States must have requirements, policies, and procedures in place to conduct comprehensive criminal background checks and monitoring policies and procedures to ensure compliance from all childcare providers and facilities; 45 CFR section 98.16(o) and 45 CFR section 98.43(a)(1)(i).

**Condition:** In August 2020, the Office of Inspector General (OIG) issued a report on their analysis of Rhode Island’s monitoring of childcare provider compliance with applicable criminal background check requirements. The OIG determined that Rhode Island’s monitoring did not ensure provider compliance. Specifically, the OIG made four recommendations. The Department has resolved the instances of noncompliance with background check requirements for individuals found during the OIG audit and has also hired an additional inspector for the licensing unit.

The Department has not fully implemented the following recommendations:

- Determine whether it is feasible to develop a centralized process to monitor both family homes and childcare centers; and
- Require the State licensing agency to increase the number of current employees it reviews at all childcare centers to ensure childcare provider compliance with criminal background check requirements.

**Cause:** The Department of Human Services (DHS) has different monitoring processes for family home providers and childcare centers. DHS maintains all background check documentation in the providers licensing file for family home providers, however it requires licensed childcare centers to be responsible for maintaining all relevant background check documentation in employee personnel files at their facilities. DHS reviews a small sample of personnel files during their unannounced monitoring visits (at least once a year) to determine provider compliance. If noncompliance is noted, then a more comprehensive review is conducted to ensure the provider is brought back into compliance.

DHS existing licensing system does not offer the functionality to review an active/current registry of provider employees to cross reference to completed and submitted background check documentation.

**Effect:** Potential non-compliance with requirements relating to health and safety.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

**RECOMMENDATIONS**

- 2021-067a      Modify policies to create uniform procedures for both family home providers and childcare centers. Implement a system that allows DHS to facilitate an active and continuous monitoring process of childcare provider compliance with relevant background check requirements.
- 2021-067b      Increase the number of current employees reviewed during onsite inspections at all childcare centers to ensure childcare provider compliance with criminal background checks.

**Auditee views:** *The auditee disagrees with this finding – see Corrective Action Plan in Section E.*

**Auditor response:** *While the auditee disagrees with the finding, the Department’s corrective action plan describes that development of a centralized registry is possible and has begun the process of creating a workforce registry.*

***Finding 2021-068 (material noncompliance / material weakness – repeat finding – 2020-053)***

**CHILDREN’S HEALTH INSURANCE PROGRAM – 93.767**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2020 and 2021

Federal Award Numbers: 2005RI5021 and 2105RI5021

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**

**Background:** RIBridges, the State’s computer system used to manage multiple federally funded human service programs, determines eligibility for CHIP. During fiscal 2021, in response to the COVID-19 public health emergency (PHE), federal guidance and temporary changes to the State Plan limited the State’s data verification procedures when evaluating eligibility of new program applicants and prohibited modifying recipient eligibility of existing recipients during the PHE. This finding focuses on the results from testing the more limited controls in place during fiscal 2021.

The State did not materially comply with CHIP eligibility requirements during fiscal 2021. RIBridges is not fully evaluating all eligibility criteria to ensure compliance with federal regulations.

**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 non-citizens 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.

**Condition:** Controls over CHIP eligibility determinations, except for the limitations described above, were largely unchanged during fiscal 2021. While most CHIP eligibility was identified through RIBridges, EOHHS identified additional CHIP claiming (approximately \$3.3 million) through querying the MMIS for individuals meeting CHIP characteristics but not coded as CHIP eligible by RIBridges. Utilizing two separate claiming mechanisms continues to weaken controls over CHIP eligibility.

For fiscal 2021, we tested a sample of 40 capitation payments (total population of 1.5 million payments totaling \$87.7 million, federal share - \$65.8 million) claimed to CHIP for limited eligibility requirements deemed applicable during the PHE. Operational and control deficiencies during fiscal 2021 resulted in material noncompliance with eligibility requirements for CHIP. For all exceptions, the State did not consider the existence of third-party health coverage when determining eligibility for CHIP. We found that four individuals out of the 40 tested were covered by existing health coverage at the time of the claim for a 10% error rate. Capitation paid in relation to these individuals totaled \$8,681 during fiscal 2021 (federal questioned costs = \$6,511). These costs would be eligible for claiming to Medicaid.

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.

**Cause:** Noncompliance with CHIP eligibility requirements is caused by CHIP specific programming deficiencies within RIBridges, most notably, the lack of functionality to consider the availability of existing health coverage at the time of application.

**Effect:** Material noncompliance with federal requirements relating to recipient eligibility for CHIP.

**Questioned Costs:** \$6,511

**Valid Statistical Sampling:** Yes

**RECOMMENDATIONS**

- 2021-068a      Address and correct the RIBridges system deficiencies which weaken controls and result in material noncompliance with federal regulations regarding CHIP eligibility.
- 2021-068b      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 2021-069**

**(material noncompliance / material weakness – new finding)**

**CHILDREN’S HEALTH INSURANCE PROGRAM – 93.767**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2020 and 2021

Federal Award Numbers: 2005RI5021 and 2105RI5021

Administered by: Executive Office of Health and Human Services (EOHHS)

**MEDICAID CLUSTER – 93.775, 93.777, 93.778**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2020 and 2021

Federal Award Numbers: 2005RI5MAP and 2105RI5MAP

Administered by: Executive Office of Health and Human Services (EOHHS)

**Compliance Requirement: Special Tests and Provisions – Managed Care Financial Audit**

**MANAGED CARE FINANCIAL AUDIT**

**Criteria:** Federal regulations require States to comply with the following contract and program integrity safeguards when administering Medicaid managed care programs:

- 42 CFR 438.3(m) *Audited financial reports.* “The contract must require MCOs, PIHPs, and PAHPs to submit audited financial reports specific to the Medicaid contract on an annual basis. The audit must be conducted in accordance with generally accepted accounting principles and generally accepted auditing standards.”
- 42 CFR 438.602(e) *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, PIHP or PAHP.”

The State is not currently in compliance with federal regulations requiring States to implement certain program integrity safeguards when administering Medicaid managed care programs.

**Condition:** Federal program integrity requirements including required audits of MCO financial and encounter data have not been implemented by the State. These requirements are effective for MCO contract periods on or after July 1, 2017 (Fiscal 2018). While the State has included language for audit requirements within recent MCO contracts, the requirements have not been complied with and policies and procedures specifically outlining the scope of the audits to be performed has not been documented.

**Cause:** Failure to implement federal requirements for stated effective date.

**Effect:** Material noncompliance with federal regulations relating to managed care financial audit requirements.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable



## RECOMMENDATIONS

- 2021-069a Improve required contract language for required MCO financial audits to ensure compliance with federal requirements.
- 2021-069b Implement procedures to comply with federal regulations for MCO financial audits.

***Auditee views:*** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

### **Finding 2021-070 (material noncompliance / material weakness – repeat finding – 2020-063)**

#### **CHILDREN’S HEALTH INSURANCE PROGRAM – 93.767**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2020 and 2021

Federal Award Numbers: 2005RI5021 and 2105RI5021

Administered by: Executive Office of Health and Human Services (EOHHS)

#### **MEDICAID CLUSTER – 93.775, 93.777, 93.778**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2020 and 2021

Federal Award Numbers: 2005RI5MAP and 2105RI5MAP

Administered by: Executive Office of Health and Human Services (EOHHS)

***Compliance Requirement: Special Tests and Provisions – Provider Eligibility***

#### **MEDICAID MANAGED CARE ORGANIZATIONS – PROVIDER ELIGIBILITY**

**Criteria:** 42 CFR Section 438.602, titled *Managed Care, Additional Program Integrity Safeguards, State Responsibilities* requires the State to comply with the following sections relating to provider eligibility:

“(b) Screening and enrollment and revalidation providers.

(1) The State must screen and enroll, and periodically revalidate, all network providers of MCOs, PIHPs, and PAHPs, in accordance with the requirements of part 455, subparts B and E of this chapter. This requirement extends to PCCMs and PCCM entities to the extent the primary care case manager is not otherwise enrolled with the State to provide services to FFS beneficiaries.

This provision does not require the network provider to render services to FFS beneficiaries.

(2) MCOs, PIHPs, and PAHPs may execute network provider agreements pending the outcome of the process in paragraph (b)(1) of this section for up to 120 days but must terminate a network provider immediately upon notification from the State that the network provider cannot be enrolled, or the expiration of one 120-day period without enrollment of the provider, and notify affected enrollees.

(c) Ownership and control information. The State must review the ownership and control disclosures submitted by the MCO, PIHP, PAHP, PCCM or PCCM entity, and any subcontractors as required in §438.608(c).

The State is not currently in compliance with federal regulations for the screening, enrollment, and revalidation of providers used in managed care organization (MCO) networks. Although many of these providers are also enrolled as Medical Assistance providers, the new regulations mandate that States screen, enroll, and periodically revalidate all managed care network providers.

(d) Federal database checks. Consistent with the requirements at §455.436 of this chapter, the State must confirm the identity and determine the exclusion status of the MCO, PIHP, PAHP, PCCM or PCCM entity, any subcontractor, as well as any person with an ownership or control interest, or who is an agent or managing employee of the MCO, PIHP, PAHP, PCCM or PCCM entity through routine checks of Federal databases. This includes the Social Security Administration's Death Master File, the National Plan and Provider Enumeration System (NPPES), the List of Excluded Individuals/Entities (LEIE), the System for Award Management (SAM), and any other databases as the State or Secretary may prescribe. These databases must be consulted upon contracting and no less frequently than monthly thereafter. If the State finds a party that is excluded, it must promptly notify the MCO, PIHP, PAHP, PCCM, or PCCM entity and take action consistent with §438.610(c).”

**Condition:** The Medicaid and CHIP Managed Care Final Rule implemented new screening, enrollment, and revalidation requirements for providers of managed care organizations operating within these federal programs. These requirements became effective for fiscal 2019, however, EOHHS had not yet complied with these new regulations as of fiscal 2021.

**Cause:** Failure to implement federal requirements by the required effective date. EOHHS has implemented new procedures and begun enrollment in fiscal 2022.

**Effect:** Potential federal noncompliance with federal regulations relating to eligibility of providers in managed care networks.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

**RECOMMENDATION**

2021-070      Expedite implementation of procedures to comply with federal regulations for the screening, enrollment and revalidation of providers used in managed care organization networks.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*



**Finding 2021-071**

*(material weakness – repeat finding – 2020-062)*

**CHILDREN’S HEALTH INSURANCE PROGRAM – 93.767**

Federal Award Agency: Department of Health and Human Services (HHS)  
 Federal Award Fiscal Years: 2020 and 2021  
 Federal Award Numbers: 2005RI5021 and 2105RI5021

Administered by: Executive Office of Health and Human Services (EOHHS)

**MEDICAID CLUSTER – 93.775, 93.777, 93.778**

Federal Award Agency: Department of Health and Human Services (HHS)  
 Federal Award Fiscal Years: 2020 and 2021  
 Federal Award Numbers: 2005RI5MAP and 2105RI5MAP

Administered by: Executive Office of Health and Human Services (EOHHS)

**Compliance Requirements: Activities Allowed or Unallowed; Allowable Costs/Cost Principles**

**CONTROLS OVER MANAGED CARE CAPITATION PAYMENTS AND CONTRACT SETTLEMENTS**

*See related Financial Statement Findings 2021-003 and 2021-004.*

**Background:** Medicaid expenditures for individuals enrolled in managed care during fiscal 2021 approximated \$1.8 billion (monthly capitation payments paid to participating MCOs). This comprised managed care coverage for 299,378 Medicaid eligible individuals - approximately 88% of total Medicaid enrollees at June 30, 2021. These capitation payments related to the following managed care programs within the State’s Medicaid program:

Capitation payments to MCOs represent approximately 64% of Medicaid benefit expenditures. EOHHS needs to improve controls over managed care financial activity to ensure compliance with allowable cost principles for related program expenditures.

Program Name	Enrollment (June 2021)	Expenditures (Capitation in millions)
Rite Care (Core, CSHCN, Foster Care)	175,605	\$744
Rhody Health Partners (certain adults with disabilities)	14,731	\$314
Integrated Care Initiatives (Medicare/ Medicaid Dual Eligibles)	12,754	\$121
Medicaid Expansion (low-income adults under 138% FPL)	96,288	\$652
<b>Total</b>	<b>299,378</b>	<b>\$1,831</b>

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 overhauled managed care regulations in fiscal 2020. 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:** As allowed under federal regulations, the State administers its managed care programs through contracts with MCOs which share the risk regarding financial gain or loss derived from the final contract settlements for the fiscal year. Contract settlements represent significant financial transactions within the Medicaid and CHIP programs and are impacted by the control deficiencies described in Finding 2021-003 and 2021-004 relating to the State’s financial reporting and Finding 2021-069 relating to noncompliance with the federal requirements for MCO audit provisions. These deficiencies also impact controls over federal compliance with allowable cost principles in relation to managed care contract settlements.

**Condition:** The following findings document control deficiencies and noncompliance with federal requirements which contribute to weakened controls over the allowability of managed care expenditures within Medicaid and CHIP:

Finding 2021-003, *Medicaid Program Complexity Affects Financial Reporting and Overall Program Controls* – Highlights the need for system improvements to allow better financial accountability for managed care premiums and to enhance the processing of encounter data in support of the managed care contract settlement process.

Finding 2021-004, *System Payouts and Manual Disbursements by the Medicaid Fiscal Agent* - The State conducts most contract settlement activities with its managed care providers through system payout transactions, thus control deficiencies relating to system payouts also weaken controls over compliance relating to the allowability of the underlying Medicaid expenditures.

Finding 2021-069, *Managed Care Financial Audit* – CMS inclusion of managed care financial audit requirements relating to managed care were designed to improve controls over financial activity and the underlying data reported by managed care organizations which become the basis for contract settlements with the Medicaid and CHIP programs. The State’s noncompliance with these federal requirements results in weakened controls over the administration of managed care activity.

Addressing the above findings will improve (1) final contract settlements with the MCOs and (2) the reliability of data utilized in developing prospective capitation rates.

We also assessed controls to ensure the timely termination of eligibility for deceased individuals to prevent continued payment of managed care capitation after death. We found that the State had not ended eligibility in the MMIS for 321 individuals within 90 days of the date of death. This control deficiency resulted in managed care capitation totaling \$941,583 (federal share - \$680,491) paid for individuals who had been deceased for more than 90 days. Of that group, 163 individuals remained Medicaid active with capitation paid to the managed care organization for more than 180 days after death. While the State can recoup the capitation once the individual’s death is recorded and eligibility is ended, the delay in termination for deceased individuals further weakens overall controls relating to managed care contract settlements. The State should improve controls to ensure that capitation payments are not continued for Medicaid recipients after death.

**Cause:** Control deficiencies exist relating to final contract settlements with managed care organizations (MCOs) and managed care capitation payments.

**Effect:** Potential for inaccurate reimbursements to MCOs for contract services provided to Medicaid enrollees.

**Questioned Costs:** \$680,491

**Valid Statistical Sampling:** Not Applicable

## **RECOMMENDATIONS**

- 2021-071a Improve controls over compliance requirements for the allowability of federal expenditures by addressing related internal control deficiencies over financial reporting and federal noncompliance that specifically impacts financial settlements with managed care organizations.
- 2021-071b Improve controls to ensure the timely termination of Medicaid eligibility for deceased individuals to prevent continued payment of managed care capitation after death.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

### ***Finding 2021-072***

***(significant deficiency – repeat finding – 2020-064)***

#### **CHILDREN’S HEALTH INSURANCE PROGRAM – 93.767**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2020 and 2021

Federal Award Numbers: 2005RI5021 and 2105RI5021

Administered by: Executive Office of Health and Human Services (EOHHS)

#### **MEDICAID CLUSTER – 93.775, 93.777, 93.778**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2020 and 2021

Federal Award Numbers: 2005RI5MAP and 2105RI5MAP

Administered by: Executive Office of Health and Human Services (EOHHS)

#### ***Compliance Requirement: Reporting***

## **FEDERAL REPORTING**

**Criteria:** Federal regulations require that expenditures for federal programs 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 federal reports. Forms CMS 64 and CMS 21 are required for the quarterly filing of benefit and administrative expenditures for the Medicaid and CHIP programs. Additionally, the CMS 425 Report is required quarterly to reflect the cumulative disbursement of program expenditures to authorized grant awards (by federal fiscal year) for the respective programs.

Controls should be improved over the quarterly reporting of expenditures for the Medicaid and CHIP programs.

**Condition:** Reviews of federal reports for fiscal 2021 noted the following reporting deficiencies:

- Approximately \$3.3 million in CHIP expenditures were claimed to Medicaid initially and determined retroactively to be CHIP eligible and reclassified on federal reports between the two federal programs. The untimely adjustment of expenditures between the Medicaid and CHIP programs results in timing differences and reporting adjustments that complicate the reconciliation of federal reporting to RIFANS for both programs.
- Reconciling administrative expenditures to the State Accounting System was not performed consistently by the State’s other health and human service (HHS) agencies charging administrative expenditures to Medicaid. Various HHS agencies utilize six separate and distinct cost allocation plans to allocate administrative expenditures to Medicaid.

- Nursing facility taxes and hospital licensing fees were reported inconsistently between cash and accrual basis on a quarter-to-quarter basis. The CMS-64 Report information should be consistently reported on a cash basis to prevent misstatement. In addition, EOHHS should consider whether other healthcare related taxes meet the requirements for reporting on the CMS-64 Report to ensure the completeness of reports filed.

**Cause:** Untimely adjustments of expenditures between the Medicaid and CHIP programs weaken controls over federal reporting for both programs. Lack of complete reconciliation of Medicaid administrative expenditures to the State Accounting System represents a weakness in internal control over federal reporting. Procedures to ensure the consistent and complete reporting of healthcare-related taxes and fees on the CMS-64 Report are lacking.

**Effect:** Increased risk of inaccurate federal reporting.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

**RECOMMENDATIONS**

- |           |   |
|-----------|---|
| 2021-072a | Eliminate untimely adjustment of expenditures between Medicaid and CHIP by addressing RIBridges programming deficiencies which prevent CHIP eligibility from being completely determined and coded through the State’s integrated eligibility system. |
| 2021-072b | Require all HHS agencies to submit reconciliations of their quarterly administrative claiming (as determined through approved cost allocation methodologies) to reported expenditures in RIFANS on a quarterly basis.                                 |
| 2021-072c | Conduct an analysis of healthcare related fees and taxes levied by the State to determine if other healthcare related taxes require reporting in the CMS-64 Report.   |

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-073**

**(significant deficiency – repeat finding – 2020-055)**

**CHILDREN’S HEALTH INSURANCE PROGRAM – 93.767**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2020 and 2021

Federal Award Numbers: 2005RI5021 and 2105RI5021

Administered by: Executive Office of Health and Human Services (EOHHS)

**MEDICAID CLUSTER – 93.775, 93.777, 93.778**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2020 and 2021

Federal Award Numbers: 2005RI5MAP and 2105RI5MAP

Administered by: Executive Office of Health and Human Services (EOHHS)

**Compliance Requirement: Allowable Costs/Cost Principles**

**CONTROLS OVER THIRD-PARTY LIABILITY (TPL) IDENTIFICATION FOR INDIVIDUALS COVERED UNDER MANAGED CARE**

**Background:** The State utilizes a vendor in conjunction with its MMIS operations to identify TPL coverage for Medicaid (and CHIP) eligible individuals. For individuals enrolled in managed care, the managed care organizations (MCOs) are responsible for identifying TPL coverage. By contract, MCOs must notify the State of identified TPL within 5 business days of discovery. The State does not share identified TPL information with the MCOs.

The State should improve controls to ensure that its managed care organizations (MCOs) are effectively identifying TPL insurance coverage for Medicaid recipients and cost avoiding for claims covered by other insurance. Medicaid should be the payor of last resort when processing medical claims for individual covered by other insurance.

**Criteria:** 42 CFR section 433.138 requires that States (as defined in their approved State Plan) must take reasonable measures to determine the legal liability of the third parties who are liable to pay for services furnished under the State plan. Federal regulations indicate the minimum required measures that the State must include in their State Plan. Rhode Island’s State Plan TPL procedures are largely focused on TPL identification processes for fee-for-service claiming within the Medicaid Program.

With most Medicaid beneficiaries enrolled in managed care, ensuring the completeness and effectiveness of TPL identification by the MCOs is important to ensure compliance with federal regulations. Actual claims paid by the MCOs become the basis for final contract settlements, therefore failure to identify other responsible insurance (TPL) prevents timely cost avoidance during claims processing and increases overall contract costs for the Medicaid program.

**Condition:** During fiscal 2021, we performed certain analytical procedures on MCO encounter data to identify instances where Medicaid recipients (individuals with Medicaid eligibility for entire year) had verified TPL coverage that was similar to their Medicaid managed care coverage to determine the extent to which MCOs were paying for claims that possibly could have been cost avoided. We identified 10,239 Medicaid recipients covered under managed care that had verified TPL coverage applicable to service dates of claims paid by the MCOs during fiscal 2021. Claims paid for these individuals totaled \$31 million that were paid on behalf of Medicaid recipients with verified third party health insurance coverage (policies with coverage types akin to Medicaid MCO coverage). While the actual amount of questioned costs could not be determined accurately without additional follow-up with the MCOs, the results continue to further support our 2020 findings and the need for improved controls relating to TPL identification by the MCOs.

This analysis highlighted potential weaknesses in the uniform identification of TPL coverage for all Medicaid beneficiaries. We identified the following procedures that should be considered by the State to improve TPL identification and cost avoidance by the State’s MCOs:

- a. The State should share identified TPL coverage with the MCOs upon enrollment and as an individual’s TPL status changes.
- b. The State should match MCO TPL data for Medicaid recipients periodically with the TPL data maintained in the MMIS to identify differences in identified coverage.
- c. The State can enhance oversight of the MCOs TPL identification procedures to ensure that the MCOs are in compliance with contract provisions. MCO contract provisions can be strengthened to specify the required frequency and data sources to be utilized by the MCOs for TPL identification.
- d. The State should match encounter data submitted by the MCOs against identified TPL coverage and disallow claims from the contract settlement process when TPL coverage is responsible for the claim.
- e. EOHHS should explore implementing TPL identification functionality at the beginning of the RIBridges eligibility determination process rather than after Medicaid eligibility has been established within the MMIS.

**Cause:** Oversight of TPL identification and cost avoidance by managed care organizations and the sharing of verified TPL data by the State is lacking to ensure that required cost avoidance is being performed by managed care organizations in accordance with contract requirements and federal regulations.

**Effect:** Possible noncompliance with federal regulations requiring cost avoidance or recovery of costs when third-party liability coverage is available. Overpayment of capitation and MCO contract settlement costs.

**Questioned Costs:** Unknown

**Valid Statistical Sampling:** Not applicable

**RECOMMENDATIONS**

- |           |  |
|-----------|--|
| 2021-073a | Share and match identified TPL coverage with the MCOs upon enrollment and as an individual’s TPL status changes. Periodic matching with MCO enrollment files would ensure that TPL coverage is consistently being applied throughout the Medicaid and CHIP programs. |
| 2021-073b | Explore the other TPL process recommendations above to further improve controls over TPL identification and cost avoidance.  |

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*



**Finding 2021-074**

**(significant deficiency – repeat finding – 2020-054)**

**MEDICAID CLUSTER – 93.775, 93.777, 93.778**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2020 and 2021

Federal Award Numbers: 2005RI5MAP and 2105RI5MAP

Administered by: Executive Office of Health and Human Services (EOHHS)

**Compliance Requirement: Special Tests and Provisions – Inpatient Hospital and Long-Term Care Facility Audits**

**CONTROLS OVER INPATIENT HOSPITAL AND LONG-TERM CARE FACILITY RATE SETTING**

**Background:** *Inpatient Hospital Reimbursement* - EOHHS reimburses hospitals using a Diagnosis Related Groups (DRG) methodology. This methodology produces a fixed reimbursement rate by applying multipliers to an approved base rate. The multipliers applied depend upon diagnosis, acuity, and other factors. The DRG payment methodology serves to reimburse hospitals based on the underlying illness rather than the length of the patient stay to promote efficient and effective patient treatment.

The State’s current practices for inpatient hospital and long-term care facility rate setting do not fully comply with its State plan provisions requiring an annual review of inpatient hospital rate components and nursing facility audit requirements.

The State Plan relating to the DRG reimbursement methodology includes a requirement for annual reviews of the payment method. This requirement indicates that the “scope of the annual review will include at least the DRG algorithm version, the DRG relative weights, the DRG Base Price(s), the outlier thresholds, outlier payment parameters, policy adjustors, and the age adjustors. With respect to the DRG Base Price, the department will take into consideration at least the following factors in deciding what change, if any, to implement: changes or levels of beneficiary access to quality care; the Centers for Medicare and Medicaid Services National CMS Prospective Payment System (IPPS) Hospital Input Price Index; technical corrections to offset changes to DRG Relative Weights or policy adjustors; changes in how hospitals provide diagnosis and procedure codes on claims; and budget allocations.”

*Nursing Facility Reimbursement* - EOHHS reimburses long-term care providers using a full Resource Utilization Groups (“RUG”) system. Under the RUG system, each long-term care facility has a base per diem rate that applies to all residents that is comprised of direct nursing care and other direct care costs, indirect care, fair rental value, property taxes, direct care and gain/loss policy adjustors, and a provider assessment. Each long-term care resident is assigned a RUG score that reflects the individual’s expected resource utilization. A RUG score multiplier adjusts the provider base rate to a recipient-specific per diem rate to reflect the anticipated costs of caring for each resident.

The CMS-approved RUG methodology requires that EOHHS conduct a rate review every three years (at a minimum) to determine if the original cost components used to establish the base rates are still appropriate. The State Plan also requires audits of the financial and statistical records of each participating provider.

**Criteria:** 42 CFR section 447.250 requires that the State Plan provide for payment of hospital and long-term care facility services through rates that the State determines are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated facilities to provide services in conformity with State and Federal laws, regulations, and quality and safety standards.

**Condition:** *Inpatient Hospital Reimbursement* - Although EOHHS has made annual adjustments to the base DRG rate for inflation and State budget factors and has updated the DRG software for new releases, it has not formally documented an annual comprehensive review as detailed by the State plan.

*Nursing Facility Reimbursement* – EOHHS has not formalized its triennial rate review required by CMS in its approval of the RUG methodology. EOHHS has also not complied with the periodic audit requirements of the financial records of providers as required by the CMS-approved State Plan.

*Rate Setting for Public Inpatient Hospital* – The State Plan requires EOHHS to conduct an annual review of the cost-based payment method annually. EOHHS has not implemented procedures to define the annual review process.

**Cause:** EOHHS has not documented its compliance with annual rate review procedures detailed in its approved State Plan for inpatient hospital and long-term care facility rate setting. The State has also not performed nursing facility audits detailed in the State Plan.

**Effect:** Rate setting procedures for inpatient hospital and long-term care providers do not fully comply with approved State Plan requirements.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

### RECOMMENDATION

2021-074 Document compliance 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 to align to current practices.

***Auditee views:*** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

### **Finding 2021-075**

*(significant deficiency – repeat finding – 2020-058)*

#### **MEDICAID CLUSTER – 93.775, 93.777, 93.778**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2020 and 2021

Federal Award Numbers: 2005RI5MAP and 2105RI5MAP

Administered by: Executive Office of Health and Human Services (EOHHS)

***Compliance Requirement: Special Tests and Provisions – Medicaid National Correct Coding Initiative***

#### **MEDICAID NATIONAL CORRECT CODING INITIATIVE (NCCI)**

**Criteria:** Federal regulations (Section 1903(r) of the Social Security Act) requires State Medicaid agencies to incorporate NCCI methodologies into State Medicaid programs. Application of the NCCI methodologies to fee-for-service claims processed by the State Medicaid Agency (SMA) are required. Fee-for-service claims processed by other entities, such as managed care organizations are applicable only if required by the SMA.

Controls to ensure NCCI claims processing edits are functioning over Medicaid activity require improvement to ensure compliance with federal regulations.



**Condition:** While our test claim procedures found the NCCI edits to be operating as designed in the MMIS, our review of the State’s application of NCCI edit methodologies noted the following areas for program improvements:

- a. The State should consider incorporating review of the application of NCCI edits into the scope of the Service Organization Control Review conducted annually of the State’s claims processing system and related fiscal agent controls to ensure continued operation of the NCCI federal requirements within the MMIS. The NCCI edits were reviewed upon initial implementation and found to be operational; however, controls should be improved to ensure that those edits remain operational on an annual basis.
- b. It was unclear whether Medicaid claims processing by the State’s MCOs applied the NCCI methodologies. Claims processed by MCOs represent the majority of program expenditures within the State Medicaid program. Managed care contracts did not specifically require application of NCCI edits within the MCO claims processing systems. EOHHS should consider whether to formalize this requirement going forward to apply these edits to a material segment of Medicaid expenditures.
- c. We noted that the NCCI edits were not applied in the MMIS in the order specified by the federal regulations; however, we do not believe this had a significant impact on compliance.

**Cause:** Lack of NCCI edit monitoring procedures by EOHHS and limited instances of noncompliance with the NCCI Medicaid Technical Guidance.

**Effect:** Potential noncompliance with NCCI special test and provision federal requirements.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

**RECOMMENDATIONS**

- |           |  |
|-----------|--|
| 2021-075a | Include review of the application of NCCI edits into the scope of the Service Organization Control Review conducted annually of the State’s claims processing system and related fiscal agent controls to ensure continued operation of the NCCI federal requirements within the MMIS. |
| 2021-075b | Ensure that the State’s procurement of a new Medicaid Management Information System includes the requirements outlined in the NCCI Medicaid Technical Guidance issued by CMS.  |
| 2021-075c | Consider in future MCO contract procurements, the benefits of mandating MCOs to implement NCCI edits within their claim processing systems to enhance program integrity over managed care claiming.  |

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2021-076**

*(significant deficiency – repeat finding – 2020-057)*

**MEDICAID CLUSTER – 93.775, 93.777, 93.778**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2020 and 2021

Federal Award Numbers: 2005RI5MAP and 2105RI5MAP

Administered by: Executive Office of Health and Human Services (EOHHS)

**Compliance Requirement: Allowable Costs/Cost Principles**

**SERVICES PROVIDED TO CHILDREN IN THE STATE’S CUSTODY BY THE DEPARTMENT OF CHILDREN, YOUTH, AND FAMILIES (DCYF) BILLED TO MEDICAID**

**Background:** EOHHS, the Single State Medicaid Agency, administers claiming to Medicaid from other health and human service State agencies (such as DCYF) through the execution of Interagency Service Agreements (ISAs). The ISA provides approval by the Single State Medicaid Agency that the proposed services are allowable and the necessary requirements that the other agency must comply with to support the allowability of the claims to Medicaid. Services authorized by the ISAs should be claimed in accordance with approved State Plan requirements. PRTF services (which began in fiscal 2020) claimed by DCYF to Medicaid are an identified service within the ISA. The approval to claim these services based on an all-inclusive rate determined through a cost-based methodology is still pending with the Centers for Medicare and Medicaid Services (CMS). In fiscal 2021, the reimbursement rate was established based on a budget submitted by the service provider.

Certain psychiatric residential treatment facility (PRTF) services provided to children in the State’s custody have been charged to Medicaid in fiscal 2021 in accordance with a methodology that is pending State Plan Approval. Controls over other services provided to children in the State’s custody would be improved if processed through the Medicaid Management Information System (MMIS).

**Criteria:** Federal approval to reimburse PRTF service providers based on a cost reimbursement methodology is currently pending with CMS. Reimbursing providers in accordance with an approved State Plan methodology is a requirement for considering the allowability of federal expenditures.

**Condition:** DCYF implemented psychiatric residential treatment facility (PRTF) services during fiscal 2020 to provide a current level of service to children in the State’s custody that was previously lacking. Previously, DCYF allocated claiming for all contracted youth placement providers to Medicaid based on a time study methodology (partial charging, previously based on underlying time study allocation for treatment and assessment component of service provided). PRTF placements were a change in that certified and licensed facilities would be charged at 100% of the contracted per diem rate (set based on a cost reimbursement methodology) to Medicaid. Medicaid reimbursements have been made to DCYF since inception based on the new methodology, even though State Plan approval of that cost reimbursement methodology is still pending. DCYF was reimbursed approximately \$4.8 million for PRTF services provided to children in the State’s custody during fiscal 2021. In addition, controls over PRTF services would be substantially improved if the providers submitted claiming directly to the MMIS which would subject them to the claims processing, recipient eligibility, and provider eligibility controls designed in the system.

During our audit, we also noted that approximately \$16 million in other services to children in the State’s custody are being claimed to Medicaid through journal entries in the State Accounting System. As is the case for the PRTF services, controls over these services would also be greatly enhanced if these providers submitted claims to the MMIS directly for reimbursement. Allowing fee-for-service claiming to be reimbursed by Medicaid external to the MMIS significantly weakens program controls.

**Cause:** Medicaid reimbursements of PRTF services to DCYF during fiscal 2021 were based on a reimbursement methodology which is pending State Plan Amendment approval by CMS. Control weaknesses exist when Medicaid claiming is not processed through the MMIS.

**Effect:** Potential noncompliance with federal regulations for allowable costs/cost principles.

**Questioned Costs:** Unknown

**Valid Statistical Sampling:** Not Applicable

### RECOMMENDATIONS

2021-076a Ensure that PRTF services are reimbursed to DCYF in accordance with the currently approved Medicaid State Plan.

2021-076b Ensure that allowable medical services provided by DCYF providers are billed directly to the MMIS and subject to all designed claims processing, recipient eligibility, and provider eligibility controls.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

### **Finding 2021-077**

*(significant deficiency – new finding)*

#### **DISASTER GRANTS – PUBLIC ASSISTANCE (PRESIDENTIALLY DECLARED DISASTERS) – 97.036**

Federal Award Agency: U.S. Department of Homeland Security (DHS), Federal Emergency Management Agency (FEMA)

Federal Award Fiscal Year: Not Applicable

Federal Award Number: Not Applicable

Administered by: Rhode Island Emergency Management Agency (RIEMA)

***Compliance Requirement: Reporting***

#### **FEDERAL FINANCIAL REPORTS**

**Criteria:** Consistent with Uniform Guidance requirements, the State is required to complete the SF-425, Federal Financial Report, quarterly for the grant.

44 CFR 206.204(f) requires that progress reports be submitted by grant recipients quarterly. The reports are to describe “the status of those projects on which a final payment of the Federal share has not been made to the recipient and outline any problems or circumstances expected to result in noncompliance with the approved grant conditions.”

RIEMA can improve its reporting function. Required federal financial reports for fiscal 2021 were not properly supported by the State accounting system.

**Condition:** Expenditures reported on the quarterly SF-425 reports were not adequately supported, resulting from numerous adjustments subsequently made in the accounting system. We were unable to match expenditures reported on two of the four quarterly SF-425 reports for fiscal 2021 to amounts included in the RIFANS accounting system.

We separately performed testing of the quarterly progress reports for fiscal 2021. For one large project under the grant, grantee drawdowns were overstated by \$7.8 million.

**Cause:** RIEMA did not maintain adequate documentation for amounts reported on the SF-425 federal reports. Due to the nature of the COVID related federal assistance program, there was an unusual amount of accounting adjustments between various federal programs with similar objectives.

**Effect:** Expenditures reported on the SF-425 for this program were overstated. Drawdowns on the quarterly progress reports were overstated by \$7.8 million for one quarter.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

### RECOMMENDATIONS

- 2021-077a Strengthen procedures for preparing federal financial reports to ensure that information reported is adequately supported and consistent with amounts included in the RIFANS accounting system.
- 2021-077b Submit revised SF-425 and quarterly progress reports to reflect corrected expenditures and drawdowns for fiscal 2021, as necessary.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

### **Finding 2021-078**

*(material weakness – new finding)*

### **PRESIDENTIAL DECLARED DISASTER ASSISTANCE TO INDIVIDUALS AND HOUSEHOLDS – OTHER NEEDS – 97.050**

Federal Award Agency: U.S. Department of Homeland Security (DHS), Federal Emergency Management Agency (FEMA)

Federal Award Fiscal Year: 2020

Federal Award Numbers: 4505LOSTWAGESBENEFIT

Administered by: Department of Labor and Training (DLT)

**Compliance Requirement:** *Eligibility*

### **FEMA SUPPLEMENTAL UNEMPLOYMENT BENEFITS**

**Criteria:** On August 8, 2020, the President signed a memorandum “Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to Coronavirus Disease 2019.” This allowed an additional payment of \$300 to all eligible claimants, which was defined as any claimant who received at least \$100 per week from any of the federal unemployment programs. This benefit was to be paid for five weeks beginning August 1, 2020.

Supplemental unemployment benefits were paid to claimants that did not meet the minimum benefit threshold required for eligibility.

**Condition:** In order to qualify all claimants for the supplemental payment, the Governor issued Executive Order 20-68, which declared that the minimum base rate for unemployment insurance benefits shall be \$100. DLT did not increase the minimum payment for claimants with a base payment of less than \$100 but did pay these claimants the enhanced \$300 for the five weeks of the program.

**Cause:** DLT did not implement State of Rhode Island Executive Order 20-68 to ensure all claimants met the minimum benefit provision required for this program.

**Effect:** Benefits were paid to ineligible claimants.

**Questioned Costs:** \$6,303,300 (representing ineligible payments to claimants with base payments less than \$100)

**Valid Statistical Sampling:** Not Applicable

**RECOMMENDATION**

2021-078      Resolve the noncompliance with the minimum benefit provision by retroactive implementation of the Rhode Island Executive Order or return federal funds drawn for the ineligible benefits.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Corrective Action Plans**  
(prepared by the State's management)





## **Finding 2021-001 – Corrective Action Plan**

Division of Information Technology leadership agrees with the need to implement a software-as-a-service (SaaS) enterprise resource planning (ERP) system in a comprehensive and strategic manner. The Enterprise Applications Strategic Plan is the foundation for Rhode Island’s multi-year effort to transform its enterprise technology and business processes to better meet the needs of the State, its residents, and its partners. The State wants to improve efficiencies, integrate multiple systems, automate manual processes, increase the quality and timeliness of data to decision makers and replace and modernize its current enterprise technologies. The objectives of modernizing obsolete enterprise applications will:

- Address audit findings
- Reduce risk
- Enable business improvements, provide expanded functionality, and information for managing
- Address manual processes that are more prone to errors

**Anticipated Completion Date:** In November of 2021, the State released a request for proposal (RFP22000809) seeking “qualified firms to serve as the systems integrator (SI) and provide SaaS (Software as a Service) ERP (Enterprise Resource Planning) software for the implementation, support and license of a SaaS ERP solution.” The procurement process is currently in-progress and the State anticipates selection and contract negotiation to complete in or around April 2022. The RFP calls for the following go-live dates which will be confirmed or updated once the SI/software vendor are selected and a comprehensive project plan is created:

- HR/Payroll Go-Live on 12/31/2023
- Finance Go-Live on 6/30/2025

**Contact Person:** Jim Ritter, Chief of Information Technology: Agencies and Enterprise Applications  
Department of Administration, Division of Information Technology  
[jim.ritter@doit.ri.gov](mailto:jim.ritter@doit.ri.gov)

## **Finding 2021-002 – Corrective Action Plan**

2021-002a – UI leadership, along with our Legal Unit and Department of Information Technology, work continuously to identify opportunities for enhancements within our current systems to identify potential fraud and to detect emerging fraud patterns. We partner with various vendors and federal partners to incorporate identity validation tools, pattern-based impostor fraud identifiers, and fraud intel received from other external sources.

In addition, our Fraud team works in partnership with Federal and State law enforcement to share data and identify potential fraudulent activity.

As the department moves forward toward modernizing our UI claims system, fraud detection strategies will be a priority while building requirements for system operation.

In late January 2021, additional auto-stops were added to the UI claims system addressing trends identified by both KGS and DLT staff. These stops include targeting certain characteristics associated with fraudulent claims to meet newly recognized identity fraud activity.



## State of Rhode Island

Anticipated Completion Date: This work is continuous and ongoing.

Contact Person: Michael White, Legal Counsel  
Department of Labor & Training  
*michael.white@dlt.ri.gov*

2021-002b – The RI DLT and Division of Information Technology are developing a Request for Proposal (RFP) to identify a vendor who will create a strategic plan to address the modernization of DLT's systems, including the UI Benefit Claims processing system. The selected vendor will provide a strategy based on analysis of each system that will inform a larger project to complete the actual modernization and upgrading of the systems. It is anticipated that the draft version of the Strategic Planning RFP will be ready for internal distribution and revision, allowing for the final document to be submitted to State Purchases for publication in March or April 2022.

The future modernization project will include requirements to build in fraud detection safeguards and system capacities that will protect the integrity of the system as it accommodates mass unemployment events, which could result in previously unimaginable claims volume.

Anticipated Completion Date: December 31, 2022

Contact Person: Kathy Catanzaro, Administrator, Operations Management - Income Support Unit  
Department of Labor and Training  
*kathy.catanzaro@dlt.ri.gov*

2021-002c – Business Affairs is currently working with UI Administration to review financial transactions which result from recoveries from fraudulent payments. The divisions will work collaboratively to create procedures to accurately categorize these recovered funds and record within the RIFANS accounting system.

Anticipated Completion Date: September 30, 2022

Contact Persons: Kathy Catanzaro, Administrator, Operations Management - Income Support Unit  
Department of Labor and Training  
*kathy.catanzaro@dlt.ri.gov*

2021-002d – The department will work with US Department of Labor to determine the appropriate process for returning funds recovered in each of the CARES, CAA, and ARPA programs.

Anticipated Completion Date: September 30, 2022

Contact Persons: Kathy Catanzaro, Administrator, Operations Management - Income Support Unit  
Department of Labor and Training  
*kathy.catanzaro@dlt.ri.gov*





## **Finding 2020-003 – Corrective Action Plan**

2021-003a – The agency will work with the Office of the Auditor General to gain a more detailed understanding of the finding to conduct a more targeted formal risk assessment process to determine where additional controls and other data validation procedures could be used in contract settlement procedures. EOHHS has already engaged with the Managed Care vendors to ask for examples of data sources that could be used.

2021-003b – The MES Planning Vendor (contract to begin ~4/1/22) will be tasked with evaluating the existing MMIS processing for premium payments, capitations and encounters and will be conducting business needs assessments. These details will be incorporated into the RFPs for replacement systems that will perform in alignment with Rhode Island-specific needs and/or have the flexibility to achieve the Programs' objectives in these areas.

2021-003c – EOHHS acknowledges the complexity of the Medicaid program and our financial activities. EOHHS is aware of many of the risks facing the program's financial reporting, including manual payments, and has already taken steps to simplify Medicaid-related financial activities and improve oversight as outlined below. The steps taken to-date to improve oversight are outlined below:

### 1. Risk Share Settlements

- a. MCO risk share settlements are based on MCO submitted reporting and validated against accepted encounter claims in the MMIS. EOHHS recognizes that for this reason MCO reporting would ideally be validated against other sources. This is why, in FY20, the state implemented a requirement that the MCOs report quarterly through a new "Financial Data Cost Report" (FDCR) their membership, benefit expenses, including general ledger adjustments, sub-capitated arrangements, reinsurance arrangements, reserves, benefit expense recoveries and administrative costs for each Premium Rating Group. These expenses are reported at either the rate cell and category of service level, or at the product level (Rite Care/Expansion, etc.).

Annually, the MCOs must reconcile the information in its FDCR to their NAIC financial statements.

EOHHS utilizes this FDCR data in rate setting as well as to monitor MCO financial performance throughout the year.

EOHHS began utilizing the FDCR reporting for risk share settlement beginning with the final reconciliation for FY 2019. This allows for the risk share reporting to be validated against other financial reporting and in alignment with rate setting activities.

- b. In addition, in our RFP for MCO vendors, EOHHS proposed eliminating risk corridors which would have eliminated the need for risk share settlements entirely.

### 2. Stop Loss Programs

- c. EOHHS recognizes that the stop loss payments resulted in additional manual payments, creating risk of error. As a result, in FY22, EOHHS eliminated its Hepatitis C stop loss program and its organ transplant stop loss program eliminating manual payments made by the state to the MCOs. However, stop loss programs will remain where necessary; specifically, there will be a COVID vaccine "non-risk" stop loss program where the state pays the full amount of vaccine administration reimbursement back to the MCO.

### 3. Limiting Manual Capitation Payments

- d. EOHHS recognizes that retroactive capitation payments can result in additional manual payments, creating risk of error. For premiums paid monthly, the MMIS can systematically correct payments made within a three-month window – retroactively for the prior month, the current month, and prospectively for the future month. For capitation paid daily (RiteCare), corrections can only be systematically made within a two-month window – for the current month and prospectively for the future month. However, within the last year for both program types



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(daily and monthly) new processes have been incorporated into the MMIS to allow for systematic adjustments to payments retroactively in two scenarios; 1) based on a Newborns Date of Birth and; 2) based on a recipients Date of Death. These two scenarios contributed to the highest number of retroactive adjustments aside from rate changes. Any corrections outside of the systematic adjustment windows or aside from the Newborn and Death causes still must be processed manually unless additional system modifications are done.

In an effort to limit system modifications but further reduce manual payments, throughout FY20, EOHHS developed an internal MCO contract project charter and workgroup with the express goal of ensuring that our contract amendments and MCO capitation rates would be completed timely and ensure that MCO rates are in the system at the start of the year, or soon thereafter to minimize any manual payments.

However, in FY21, there was a delay in the state budget enactment that led to a delay in the final FY21 rates that was out of EOHHS' control and resulted in large manual payments.

Note that some states input new fiscal year rates without final state budgets or signed contracts, but EOHHS has assessed that this creates its own risk and that the current approach is preferred.

Anticipated Completion Date: Ongoing

Contact Person: Katie Alijewicz, Deputy Medicaid Program Director, Finance  
Executive Office of Health and Human Services  
[katie.alijewicz@ohhs.ri.gov](mailto:katie.alijewicz@ohhs.ri.gov)

### **Finding 2021-004 – Corrective Action Plan**

2021-004a – EOHHS will create a Manual of Standard Operating Procedures that crosswalks the list of financial transaction types and reason codes with scenarios when they should be used. EOHHS will also create new financial transaction and reason codes for scenarios where a transaction or reason code doesn't yet exist.

2021-004b – EOHHS and the fiscal agent implemented in December 2019 a monthly report recapping all 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 FACN report. Any discrepancy is promptly researched and resolved.

EOHHS intends to implement "ServiceNow" with their fiscal agent for the purpose of more formally tracking FACN type requests in addition to system issues, incidents, modifications and other types of requests. This tool will eliminate the FACN process as it is defined presently. To the extent that additional codes are needed to clarify the nature of various transactions, EOHHS will work with the fiscal agent to establish and utilize these new codes on a go-forward basis within the new ServiceNow tool.

2021-004c – The MES Planning Vendor (contract to begin ~4/1/22) will be tasked with evaluating the existing MMIS processing financial transactions and reason codes and will be conducting business needs assessments. These details will be incorporated into the RFPs for replacement systems that will perform in alignment with Rhode Island-specific needs and/or have the flexibility to achieve the Programs' objectives in these areas.

Anticipated Completion Date: Ongoing

Contact Person: Katie Alijewicz, Deputy Medicaid Program Director, Finance  
Executive Office of Health and Human Services  
[katie.alijewicz@ohhs.ri.gov](mailto:katie.alijewicz@ohhs.ri.gov)



## **Finding 2020-005 – Corrective Action Plan**

Management agrees the state lacks formalized documentation and a comprehensive internal control structure statewide that complies with an accepted framework. The Office of Accounts & Control (A&C) has hired an Administrator, Financial Management to commit resources to training and developing implementation (“best-practice”) materials to be communicated to departments and agencies. Further, the ERP system is moving forward, with a vendor scheduled to be selected before fiscal year end, which brings the opportunity to embed internal controls within the software applications. A&C is exploring the use of an RFI to determine if assistance from an outside firm is a viable option to onboard for expertise with documenting the entity’s internal control structure. In addition to developing training materials and potentially implementation resources, A&C will be requesting management to commit time and resources to assist in designing, implementing, and maintaining an effective internal control system at each respective agency.

Anticipated Completion Date: Ongoing

Contact Person: Alex Herald, Administrator of Financial Management  
Department of Administration, Office of Accounts & Control  
*alexander.herald@doa.ri.gov*

## **Finding 2021-006 – Corrective Action Plan**

2021-006a – A&C is developing a refresher to the training and guidance provided to agencies during June 2021. The June 2021 training was comprehensive to the SOC reporting process and we believe it can be utilized again in conjunction with an updated assessment tool and detailed instructions to improve the overall state agency evaluation and compliance of SOC reports. A&C is working to finalize a new assessment tool entitled “SOC Report Review” which will replace the current checklist. The SOC Report Review will improve upon the current checklist by expanding the key information areas to a more detailed documentation of the review of SOC reports by the agencies. The SOC Report Review is the responsibility of the applicable agency CFO and must be completed and returned to A&C along with the relevant SOC Report.

In addition to the above, A&C has designated an FTE to be a resource to the agencies throughout the year regarding SOC training, evaluation requirements, and comments and questions. This will help ensure agencies have an appropriate resource available.

2021-006b – Within the new SOC Report Review tool and its related training, there is detailed instructions and information to assist agencies in documenting their responses to complimentary user entity (State) controls listed in the SOC report. This tool includes a section titled Complimentary User Entity Controls that requires the CFO to list each complimentary user entity (State) control and respond with the agency’s relevant controls and/or processes.

2021-006c – As in prior year training, the new SOC Report Review training will include information to assist agencies with their review of exceptions and/or modifications noted in the SOC reports. The sections of the SOC Report Review dealing with auditor report modifications (titled ‘Qualifications on Control Objectives’) and/or exceptions (titled ‘Deviations noted’) will assist the CFO reviewer by providing guidance to ensure they review any exceptions or modifications and appropriately respond to each one. The completed SOC Report Review will provide the A&C assurance the CFOs are reviewing the SOC report appropriately and timely.



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To further ensure the SOC reports are evaluated in a timely fashion and that proper documentation is provided regarding the impact on the State's control process, agencies are encouraged to request and review SOC reports as soon as they are available and to reach out to A&C with any questions and comments as they prepare their SOC Report Review. As mentioned above, A&C has designated an FTE position to be a resource to the agencies for any questions, comments, etc. that may arise in their review of their relevant SOC Report.

Anticipated Completion Date: September 30, 2022

Contact Person: Alex Herald, Administrator of Financial Management  
Department of Administration, Office of Accounts & Control  
*alexander.herald@doa.ri.gov*

### **Finding 2021-007 – Corrective Action Plan**

2021-007a – Procedures were implemented during FY 2021 to address this issue by the Office of Accounts and Control (A&C) and the Division of Information Technology (DOIT); additional reporting was implemented at this time. The Rhode Island Access Auditing (audit trail) and General Ledger (GL) Authorization Limits Report is reviewed by A&C staff monthly. DOIT also purchased monitoring software which is used for software systems with critical data. This was to be tested on RIFANS. However, due to incompatibility with our version of the RIFANS OS, the software was not implemented. DOIT is looking at upgrading the OS to a compatible level with this software.

Anticipated Completion Date: December 2022

2021-007b – The selected software will be a cloud hosted SaaS solution which will have enhanced security features. The RFP for the ERP solution is expected to be awarded May 2022.

Anticipated Completion Date: May 2022

Contact Persons: Alan Dias, Assistant Director of Information Technology  
Department of Administration, Division of Information Technology  
*alan.dias@doit.ri.gov*  
  
Michelle Goncalo, Supervising Accountant  
Department of Administration, Office of Accounts & Control  
*michelle.goncalo@doa.ri.gov*

### **Finding 2021-008 – Corrective Action Plan**

Management agrees with this finding. The requirements noted in the RFP for the new integrated ERP system requires a financial system which includes a receivable module which will account for all non-tax related receivables.

Anticipated Completion Date: June 30, 2025

Contact Person: Sandra Morgan, Assistant Director for Special Projects  
Department of Administration, Office of Accounts & Control  
*sandra.morgan@doa.ri.gov*



## **Finding 2021-009 – Corrective Action Plan**

Management agrees with this finding. The ERP strategic plan includes both a Grants Management System and a Time & Attendance Module as part of a larger ERP system. These components, along with the other functionality in the ERP and Grants Management System, will address the control weaknesses discussed above. The Grant Management System component is currently under development and the larger ERP project is anticipated to begin June 2022.

Anticipated Completion Date: January 2023 for Grants Management System and TBD for Time and Attendance Module as part of the larger ERP system.

Contact Persons: Dorothy Pascale, State Controller  
Department of Administration, Office of Accounts and Control  
[dorothy.z.pascale@doa.ri.gov](mailto:dorothy.z.pascale@doa.ri.gov)

Steve Thompson, Director, Grants Management Office  
Department of Administration, Office of Management & Budget  
[steve.thompson@omb.ri.gov](mailto:steve.thompson@omb.ri.gov)

## **Finding 2021-010 – Corrective Action Plan**

The Office of Accounts and Control (A&C) agrees with the findings. A&C will ensure all DBC reports used for year-end debt entries will be as of June 30th. A&C also reached out to DBC regarding additional reporting available within the system. A report does exist for a summary of premiums and discounts; however, A&C will need to add in additional information from past bond issuances to make it complete. Currently DBC does not have the capability to calculate and report on the gain or loss from refunding, but with improved reporting for premiums and discounts, the risk of calculation error is minimized.

Anticipated Completion Date: June 30, 2022

Contact Person: Susan DeStefanis, Supervisor, Financial Management & Reporting  
Department of Administration, Office of Accounts and Control  
[susan.destefanis@doa.ri.gov](mailto:susan.destefanis@doa.ri.gov)

## **Finding 2021-011 – Corrective Action Plan**

During State fiscal year 2021, the Division of Purchases shifted to a full telework model for a period of several months in accordance with guidelines and recommendations in relation to the COVID-19 pandemic. Prior to the pandemic, the majority of centralized procurement processes in the Division of Purchases were paper-based (including documentation and file-related recordkeeping); out of necessity and due to the emergency circumstances, the Division shifted to a hybrid electronic/paper file model as an interim measure. Accordingly, the Division instituted short-term policies and procedures with respect to documentation and electronic signature requirements for procurement files, including an approach by which the Purchasing Agent/Deputy Purchasing Agent would record their review and approval of procurement requests in the electronic audit trail in RIFANS instead of via hard copy or electronic signature.

**CORRECTIVE ACTIONS:** The State's eProcurement system, Ocean State Procures, now serves as the primary recordkeeping and file management system for all State Master Price Agreements and centralized procurements during a transitional period in which we are shifting from the previous paper-based recordkeeping system. The Division of Purchases has implemented an electronic documentation process and structure to align with the requirements of the State Purchases Act and ensure that files are complete and appropriately documented, including an internal practice requiring verified electronic signatures on all procurement determination forms and related documentation.



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There is a multi-layered approach to file handling and management in the Division of Purchases that includes at least two separate staff positions who are responsible for verifying completeness and accuracy of documentation prior to processing final requests in the respective procurement systems. Additionally, Division staff utilize a file maintenance checklist to ensure that all documentation is complete and accounted for with respect to individual contracts and procurements. As a last step to ensure compliance with all policies, procedures and applicable authority, the Purchasing Agent/Deputy Purchasing Agent performs a final review of all procurement requests and corresponding files prior to issuing approval of documentation and separately, approval of the electronic request in RIFANS. This multi-pronged review process continues with all Ocean State Procures files.

Anticipated Completion Date: Current state solutions described above have been fully implemented. The only ongoing component with respect to identified corrective actions is transitioning over to a fully electronic recordkeeping process. As this is heavily dependent upon Statewide agency adoption of the eProcurement system, a fully realized transition may take up to several years.

Contact Person: Amanda Rivers, Deputy Purchasing Agent  
Department of Administration, Division of Purchases  
*amanda.m.rivers@purchasing.ri.gov*

### **Finding 2021-012 – Corrective Action Plan**

The Office of Accounts and Control (A&C) agrees with the finding and will improve the process and review of the Entity-Wide Financial Statements. Additionally, A&C will review the newer process during the implementation of ERP with the intent to further improve controls and accuracy of conversion methods.

Anticipated Completion Date: December 31, 2022 and June 30, 2026

Contact Persons: Tara Mello, Associate Controller  
Department of Administration, Office of Accounts & Control  
*tara.m.mello@doa.ri.gov*  
  
Dorothy Pascale, State Controller  
Department of Administration, Office of Accounts and Control  
*dorothy.z.pascale@doa.ri.gov*

### **Finding 2021-013 – Corrective Action Plan**

The Office of Accounts and Control (A&C) agrees with the finding. Agencies along with a third-party consultant are reviewing and reconciling COVID stimulus grant transactional data to ensure eligibility and recording of expenditures were proper. The resulting adjusting entries and supporting documentation of this exercise will be provided to A&C and shared with the Office of Auditor General. A&C has also identified transactions causing differences between CRF expenditures and the unearned revenue account. These transactions will be adjusted and properly reflected in the FY22 financial statements.

Anticipated Completion Date: June 30, 2022

Contact Person: Dorothy Pascale, State Controller  
Department of Administration, Office of Accounts and Control  
*dorothy.z.pascale@doa.ri.gov*





## **Finding 2021-014 – Corrective Action Plan**

2021-014a – Management disagrees with this finding. The use of estimates is an allowable computation for compensated absences. Management’s comparison of prior year calculations using actual versus estimate did not result in a material variance for financial statement presentation purpose. The recommendation above will put an administrative burden upon the staff and not result in a material difference in the presentation of the information.

2021-014b – Management agrees with this finding and will segregate vacation and sick leave compensated absence liabilities. The calculation of information for vacation and sick leave will be improved with the ERP system implementation.

Anticipated Completion Date: June 30, 2022

Contact Person: Susan DeStefanis, Supervisor, Financial Management & Reporting  
Department of Administration, Office of Accounts and Control  
*susan.destefanis@doa.ri.gov*

## **Finding 2021-015 – Corrective Action Plan**

2021-015a – Management agrees with the finding. The recommendation regarding system capabilities to allocate costs will be addressed with the implementation of a new ERP system. The new system will be required to have functionality to allocate costs.

2021-015b – Management disagrees with this finding. The increase to the number of journal entries was a direct result of changing federal guidance and not related to payroll allocations. Although FY21 had an unusually large amount of adjusting journal entries due to the changing federal guidance about the use of and eligibility of stimulus funds, the controls over these entries were adequate. To further improve controls, Office of Accounts and Control created a specific methodology and process to address the movement of transactions between federal funding sources to allow the financial system to move the transactional level detail (not including payroll costs) in the financial system to improve oversight over these adjusting entries.

Anticipated Completion Date: June 30, 2025 for ERP system

Contact Person: Dorothy Pascale, State Controller  
Department of Administration, Office of Accounts and Control  
*dorothy.z.pascale@doa.ri.gov*

## **Finding 2021-016 – Corrective Action Plan**

In late 2020 when the State realized that COVID 19 tests were eligible for health insurance reimbursement, RIDOH approved a retroactive (Retro) billing effort to bill health insurers for tests performed between inception of COVID testing and January 31, 2021 – the date at which testing laboratories would directly bill insurers for all tests. Prior to January 31, 2021, the State paid the labs for the costs of the tests and then claimed FEMA reimbursement for those payments.

Retro billing for tests performed between inception and July 31, 2020, occurred in March 2021 with reimbursements for those billings starting in May 2021 (the billing for this time period was termed “Retro 1”). Since the response to COVID necessitated an immediate and unprecedented effort outside and in addition to business as usual with little augmentation of RIDOH Finance staff, RIDOH leadership continually prioritized the level of effort to devote to issues throughout the pandemic. For the Retro effort, RIDOH prioritized that the immediate, critical control necessary was to establish proper accounting for the reimbursement receipts. RIDOH worked with Accounts and Controls to establish an escrow account and



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the related procedures necessary to ensure that all reimbursement receipts were recorded to the escrow account.

Additionally in September 2021, RIDOH established a dedicated effort to monitor and establish further procedures and controls over the retroactive insurance reimbursement process and initiated the preparation of a white paper to document it from Retro inception to date and established processes to reconcile the Retro 1 billing effort and the escrow account. The initial white paper was issued to RIDOH leadership in late October 2021; subsequent addenda will include discussions of the reconciliation of Retro 1, the escrow account, the payback to FEMA and the Retro 2 effort (for tests performed between August 1, 2021, and January 31, 2022, for which the billings are expected to commence March 2022).

The final reconciliation of Retro 1 was completed in January 2022 at which time it was determined that \$101k of additional reimbursement was due to the State. As noted above, the majority of the retro receipts from the retro billing would be a return to FEMA for those testing costs paid by State to the labs for performing the tests and also reimbursed by Health Insurers (approximately 90% of the reimbursements). The remaining 10% would be revenue to the State. Thus, as of June 30, 2021, a receivable for \$101k should have been recorded with the offset 90% to the escrow account and 10% to revenue.

RIDOH believes that now, control has been established over the Retro effort with procedures in place and regular management oversight.

COVID vaccine administration that has occurred to date has been provided by several providers. Only one vaccine provider has billed, and is authorized by RIDOH to bill health insurance companies for reimbursement: Doctor's Test Center (Covid Medical Solutions Illinois LLC dba Primary & Immediate Care Solutions LLC Doctors Test Centers). Per our contract with them, they are required to remit ten percent of insurance collections to RIDOH.

To date, we haven't received any payment or statement credits from Doctor's Test Center (DTC) for this reimbursement. DTC has already indicated they will be sending us checks for the reimbursement, rather than statement credits, and we expect to start receiving them in the next few weeks. Once received, we will credit the applicable COVID Vaccine federal grant (line sequence 4675624.02) as program income.

Anticipated Completion Date: Ongoing

Contact Person: Sarah Parker, Assistant Administrator, Financial Management  
Department of Health  
[sarah.parker@health.ri.gov](mailto:sarah.parker@health.ri.gov)

### **Finding 2021-017 – Corrective Action Plan**

Management agrees with the finding and will implement new procedures to enhance the review of adjustments to mitigate risk of material misstatements of the financial statements. These procedures include:

- Meeting with high-risk agencies to review preliminary and expected results
- Implementing and enforcing a policy for audits adjustments to be signed off by agency CFO and the Office of Accounts and Control (A&C).

Additionally, the last two years has seen a significant turnover in high-level finance position at agencies. A&C will be involved in the hiring process to advice on candidates.

Anticipated Completion Date: December 31, 2022





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Contact Persons: Dorothy Pascale, State Controller  
Department of Administration, Office of Accounts & Control  
*dorothy.z.pascale@doa.ri.gov*

Tara Mello, Associate Controller  
Department of Administration, Office of Accounts and Control  
*tara.m.mello@doa.ri.gov*

### ***Finding 2021-018 – Corrective Action Plan***

Management respectfully disagrees with this finding. Management notes that 89% of the subject filings are filed electronically, which means only 11% of the filings are “manually” filed (i.e., paper filings) and at issue in the finding; this equates to 32,912 electronic filings and 4,045 paper filings. The high number of electronic filings is due to the Division’s efforts in highlighting the advantages of electronic filing and the Division of Taxation has attempted over the years to mandate electronic filing, which requires statutory changes.

The background statement that the receivable for tax is likely “inappropriately” due is a mischaracterization because based on the information, or lack of information, provided in the filings, the tax is due.

All large balances for all taxes are reviewed every three (3) business days throughout the year, and each day towards the end of each month, to confirm that no invalid receivables are established. The Division of Taxation creates initial receivables based on the filed information provided by the taxpayer via the tax return.

Occasionally, a taxpayer may have made a mistake on the return, at which point the Division would review to identify and correct prior to issuing a bill. In some cases, the information provided by the taxpayer may be incomplete, as such, the tax is calculated based on the best information available and in accordance with Rhode Island law. In situations where there is additional information subsequently provided by the taxpayer, the existing tax return is amended or adjusted, which may remove an existing receivable. This change occurs not because the original receivable was incorrect, but because the taxpayer supplied information that altered tax due calculated on their tax return.

The non-filing of an apportionment schedule where the taxpayer has apportioned income to Rhode Island may result in a receivable as described above. When subsequent supporting apportionment information is provided by the taxpayer, based on proactive, systematic written communication from the Division of Taxation, the tax due is recalculated based only on the apportioned income. The Division of Taxation reviews all available information prior to billing and will attempt to contact the taxpayer and/or reconstruct the apportionment schedule. If neither endeavor is successful, the tax will be billed based on best information available.

Management agrees that mandated electronic filing will enhance control over the completeness of a filed return and proposed draft legislation again in FY2023 to impose such a mandate.

Anticipated Completion Date: Ongoing

Contact Person: Neena Savage, Tax Administrator  
Department of Revenue, Division of Taxation  
*neena.savage@tax.ri.gov*



## ***Finding 2021-019 – Corrective Action Plan***

2021-019a – RIFANS enhancements in 2021 included integration with Ocean State Procures and the new grants management system. Updates now require additional testing resources due to the additional integration. In FY22 DOIT will be posting a managed service RFP to procure additional staff, in addition to the current contractors, to assist in the testing, patching of RIFANS and assistance with new ERP system. This will allow for timely updates of RIFANS. RFP to be posted in March 2022 with award by May of 2022

Anticipated Completion Date: May 2022 for RFP

2021-019b – The State will work with our Oracle vendor to identify the impact of uninstalled updates and communicate the risk with system users. A mitigation plan will be developed in partnership with the vendor to resolve upgrade issues.

Anticipated Completion Date: December 2022

Contact Persons: Cesar Mendoza, Chief of Information Technology, Infrastructure & Operations  
Department of Administration, Division of Information Technology  
*cesar.mendoza@doit.ri.gov*

Alan Dias, Assistant Director of Information Technology  
Department of Administration, Division of Information Technology  
*alan.dias@doit.ri.gov*

## ***Finding 2021-020 – Corrective Action Plan***

Management disagrees with these findings. Office of Accounts and Control (A&C) has implemented a number of steps to increase accuracy of the physical inventory process. A staff member of A&C is in constant contact with agency personnel throughout their inventory process. Once initial responses have been received, they are reconciled to the Fixed Asset database. From there, A&C staff sends an updated listing of all assets that need additional research. Once the agency believes they have exhausted all research options, A&C staff member will meet with the agency for final responses; the details of assets remaining to be located will determine what position in the agency hierarchy A&C request in the meeting. Additionally, write-off thresholds have been established based on asset category. If an asset meets the established threshold, additional documentation would be required to illustrate the disposition of the asset. For laptops, A&C will confirm the assignment of the asset with DoIT staff. For vehicles, A&C will confirm the whereabouts of the asset with State Fleet staff. Finally, all assets deemed unable to be located will be included in a write off document that must be approved by the agency's Director or Deputy Directory. A&C will evaluate the necessity to be physically present for each inventory.

Anticipated Completion Date: Ongoing

Contact Person: Sandra Morgan, Assistant Director of Special Projects  
Department of Administration, Office of Accounts & Control  
*sandra.morgan@doa.ri.gov*



## **Finding 2021-021 – Corrective Action Plan**

2021-021a – DOIT took tremendous strides in 2021 with a major investment and RFP award to modernize our extremely old foundational infrastructure and to optimize on premises operations. The DOIT DR Scoping project was also completed in 2021, with all major servers / applications identified for the Enterprise and agency teams, as well as the Application Development tower providing an order of restoration for the 16 primary groups that DOIT supports. To mature this process further, DoIT will be seeking Agency business leadership guidance on the routine identification and prioritization of their specific server and application stacks on an annual basis at a minimum. This will result in a more comprehensive enterprise-wide understanding of the critical business processes and technology that will then be prioritized for order of recovery by the Application Development tower, the CIO, as well as the Director of the Department of Administration.

2021-021b – DOIT successfully executed a Disaster Recovery (DR) test in October of 2020 of Agency IT Manager (AIM) defined critical applications. Documentation of this exercise and related recovery procedures are now stored in a Secure SharePoint Online location which is accessible by authorized users from anywhere with an internet connection to provide location independence and maximum resiliency. DOIT regularly plans to perform an annual Disaster Recovery (DR) test and will again be scheduling a test in Q4 of 2022 upon the completion of the major Datacenter modernization project, which will position us to recover more of our constantly growing environment than ever before, in a more timely and efficient manner as well. To go along with a newly awarded Backup, Recovery and DR solution that is being implemented now, a template for high level server stack and application testing across all agencies will be developed and maintained to support a standardized, repeatable process for our annually scheduled DR testing. Agency business leadership collaboration is required to define business critical processes, the applications that support those processes, and the Agency plan for business continuity requiring technology support from DoIT. This collaboration will be worked on together by the I&O and Application Development towers in DoIT, applying stringent project governance and tracking for success.

Anticipated Completion Date: Ongoing

Contact Person: Cesar Mendoza, Chief of Information Technology, Infrastructure & Operations  
Department of Administration, Division of Information Technology  
[cesar.mendoza@doit.ri.gov](mailto:cesar.mendoza@doit.ri.gov)

## **Finding 2021-022 – Corrective Action Plan**

DoIT has deployed the ITSM Service Delivery Tool, Service Now. The Change Management Process Module has been used to formalize and train staff on a Change Management Process, with establishment of a Change Advisory Board. All submitted changes with operational impact are reviewed and approved during the weekly CAB meeting. The application teams are involved in the CAB's; with enterprise level software and application changes being integrated into the CAB process. DoIT will continue to mature this process by inventorying vendor and Agency change management processes.

In addition, DOIT is currently evaluating a change management/version control software environment for use in the enterprise. The Department of Transportation rolled out Microsoft Azure DevOps for version control. The Department of Labor and Training has implemented JIRA for application fix and change/enhancement tracking as well as release planning. DoIT is currently evaluating both tools as well as needs across agencies and will make a recommendation for use as our enterprise change management and version control process. This will be implemented for existing code base and future code base where system replacements are not eminent. When implementing SAS solutions to replace older applications those applications will undergo the best practice as provided by the vendor for change management.

Anticipated Completion Date: Cross agency evaluation and recommendation by June 30, 2022



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Contact Persons: Cesar Mendoza, Chief of Information Technology, Infrastructure & Operations  
Department of Administration, Division of Information Technology  
*cesar.mendoza@doit.ri.gov*

Alan Dias, Assistant Director of Information Technology  
Department of Administration, Division of Information Technology  
*alan.dias@doit.ri.gov*

### **Finding 2021-023 – Corrective Action Plan**

2021-023a – The enterprise IT policies, procedures, and system security plans (SSP's) are in a continuous cycle of publish, review, and update. These policies are built upon the (National Institute of Standards and Technology) NIST 800-53 family of controls and are tailored to the IT systems operated and maintained within the enterprise domain. All policies are published, up to date, and reviewed annually. Procedures for compliance and systems security plans are in development.

Anticipated Completion Date: September 2022

2021-023b – With the adoption of the NIST Risk Management Framework (RMF), DoIT is building a system(s) risk assessment program for all enterprise operated platforms. This assessment process will be executed in a cyclical fashion; utilizing inputs from audits (internal, and external) and State hosted vulnerability and risk measuring technology and processes. External assessments will be scheduled and conducted on State critical systems. The successful execution of a defined risk assessment process is dependent on defined security policies and procedures to assess against.

Anticipated Completion Date: January 2023

2021-023c – The categorization of systems through the implementation of the RMF will provide the ability to prioritize mitigation of identified security risks. A running risk register is maintained at the enterprise level and will be created for all assessed systems; with plans of actions and milestones (POAM's) and corrective action plan's (CAP's) developed for each system after the initial, and each recurring system assessment. This completion of this recommendation is dependent upon completion of 2021-023a, b.

Anticipated Completion Date: July 2023

Contact Person: Brian Tardiff, Chief Information Security Officer  
Department of Administration, Division of Information Technology  
*brian.tardiff@doit.ri.gov*

### **Finding 2021-024 – Corrective Action Plan**

2021-024a – The DMV agrees that a reconciliation of the revenues collected is needed and will work to reconcile the revenues collected on an annual basis. The DMV expects to begin this annual reconciliation of all funds collected with the FY 2023 revenues.

2021-024b – The DMV agrees that a crosswalk is a beneficial document to have. The DMV expects to begin working on creating a crosswalk in June or July 2022 with completion by December 2022.

2021-024c – The DMV does not agree with recommendation 2021-024c, there are too many variables outside of the DMV's control that effect the deposit date(s). As previously stated, there are three separate deposits for each day's work, one for cash, checks and credit cards. The deposit of cash and credit cards are out of the DMV's control. The DMV relies on an armored car service (Service) to transport the cash to the bank and are subject to the Service's schedule. Any disruption to the Service's schedule impacts when



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the cash is recorded by the bank. Similarly, the funds transfer from credit card sales is handled by the processing company. Any disruption to the to the processing company's operations will affect the date the funds are recorded by the bank.

RIMS records the deposit date as the date that the branch was balanced and verified. RIMS is programmed so that once a branch has been balanced and verified corrections cannot be made. The DMV proposes to add a field on the Excel spreadsheet used for balancing to record the anticipated deposit date for each funding source. This proposal can be implemented immediately and can be edited to reflect any unforeseen disruptions that may cause a delay in the actual deposit date.

Anticipated Completion Date: June 30, 2022

Contact Person: Paul Dombrowski, Administrator, Financial Management  
Department of Revenue, Division of Motor Vehicles  
[paul.dombrowski@dmv.ri.gov](mailto:paul.dombrowski@dmv.ri.gov)

### ***Finding 2021-025 – Corrective Action Plan***

2021-025a – Sensitive data and systems inventory will be conducted jointly with the DoIT enterprise team through the documentation of systems within System Security Plans (SSP). Additionally, technology such as database protection (Guardium) will assist in this line of effort, enterprise implementation is in progress.

Anticipated Completion Date: July 31, 2022

2021-025b – Access to Sensitive data and systems inventory will be monitored jointly with the DoIT enterprise team through the documentation of systems within System Security Plans (SSP). Additionally, technology such as database protection (Guardium) will assist in this line of effort, enterprise implementation is in progress.

Anticipated Completion Date: July 31, 2022

2021-025c – Incident response process and management is actively executed with the enterprise incident response plan and program. DMV staff, DMV application partners, and DMV IT staff are trained and participate in real world incident response frequently. COOP training has also been administered. Planning for a tabletop exercise is in progress.

Anticipated Completion Date: August 31, 2022

2021-025d – Initiated a service request process to address. DMV staff submits a service request upon employee termination, the active directory account is then terminated. In addition, a DMV IT staff member conducts quarterly reviews of the RIMS users to terminate from the RIMS system. An enhancement to this current process is being reviewed to provide notification to the DMV IT staff member when the service request is submitted so the access to RIMS will be terminated once notification is received.

Anticipated Completion Date: July 31, 2022

Contact Person: Clare S. Sedlock, Deputy Administrator  
Department of Revenue, Division of Motor Vehicles  
[clare.sedlock@dmv.ri.gov](mailto:clare.sedlock@dmv.ri.gov)



**Finding 2021-026 – Corrective Action Plan**

2021-026a

*Short Term* – During FY 2021, RIDOT has worked to improve the fund balance procedure. During the fiscal year the 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. During FY 2022, the focus will be to implement policies and procedures to improve the fund balance reconciliation and ensure the process is compliant with GASB 54 standards. DOT is also working with IT to develop reports to assist in reconciling fund balance.

*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, 2022  
Long Term – June 30, 2023

2021-026b

*Short Term* – RIDOT has evaluated its policies and procedures to identify where additional controls can be put in place to ensure accurate identification of accounts payable at fiscal close. RIDOT has enhanced its policies and procedures to include the fiscal year field for an invoice be filled out all year round instead of just at fiscal close time. In addition, DOT will extend the accrual period through September with a third and fourth run of the fiscal close reports which will result in further accrual entries.

*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 – June 30, 2022  
Long Term – To Be Determined

2021-026c – RIDOT will revise the fiscal close procedures to ensure transferred to the General Fund and RIPTA accounts are reevaluated at various points throughout the close process including after all accrual entries are posted and after audit adjustments are posted. RIDOT will post one final accrual entry to capture many adjustments based on the be postings during the fiscal close period.

Anticipated Completion Date: August 31, 2022

Contact Person: Loren Doyle, Acting Chief Operating Officer / Chief Financial Officer  
Department of Transportation  
[loren.doyle@dot.ri.gov](mailto:loren.doyle@dot.ri.gov)





## **Finding 2021-027 – Corrective Action Plan**

2021-027a – RIDOT Finance is working with Scoping and Project Management to develop a standard form for infrastructure code verification. The Grants section will also make sure that policies and procedures are updated to ensure there is management concurrence once entered into FMS.

Anticipated Completion Date: December 31, 2022

2021-027b – RIDOT will develop policies and procedures to formalize the review of the capital asset portrait. The procedures will ensure the review of the capital asset portrait is documented and posted correctly.

Anticipated Completion Date: December 31, 2022

2021-027c – 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: June 30, 2023

2021-027d – 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: June 30, 2023

Contact Person: Loren Doyle, Acting Chief Operating Officer / Chief Financial Officer  
Department of Transportation  
[loren.doyle@dot.ri.gov](mailto:loren.doyle@dot.ri.gov)

## **Finding 2021-028 – Corrective Action Plan**

RIDOT is working with the vendor to modify the contract to include the results of the annual SOC testing.

Anticipated Completion Date: December 31, 2022

Contact Person: John-Paul Verducci, Chief, Economic and Policy Analyst  
Department of Transportation  
[johnpaul.verducci@dot.ri.gov](mailto:johnpaul.verducci@dot.ri.gov)

## **Finding 2021-029 – Corrective Action Plan**

The OPEB Board agrees with the recommendations presented by the Auditor General. In fiscal year 2022, the OPEB Board hired a full-time staff to be responsible for key functions of the OPEB system. This resource, who is part of Office of Accounts and Control, will coordinate with the appropriate parties for the development of procedures related to identification of deceased plan members and timely termination of their coverage.

The OPEB Board believes that implementing a stand-alone software application to accumulate and manage plan membership data will be extremely costly for the system to finance with authorized administrative funding. However, to address this recommendation, the OPEB Board requested this functionality be included in the RFP for the new Enterprise Resource Planning (ERP) system being pursued by the Department of Administration, which is to include a full-service Human Capital Management module.



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Anticipated Completion Date: June 30, 2025 for ERP/OPEB Implementation

Contact Persons: Xiomara Soto, Financial Reporting Manager  
Department of Administration, Office of Accounts & Control  
*xiomara.soto@doa.ri.gov*

Joseph Codega, State Budget Officer  
Department of Administration, Office of Management & Budget  
*joseph.codega@omb.ri.gov*

Dorothy Pascale, State Controller  
Department of Administration, Office of Accounts and Control  
*dorothy.z.pascale@doa.ri.gov*

### ***Finding 2021-030 – Corrective Action Plan***

The Authority will fund the Operating Reserve provided there is sufficient cash flow.

Given that the 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: Undetermined

Contact Person: Daniel McConaughy, Executive Director  
Rhode Island Convention Center Authority  
*daniel.mcconaghy@riccauth.com*

### ***Finding 2021-031 – 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: Keree J. Simmons, Director of Finance  
Central Falls School District  
*simmonsk@cfschools.net*





## ***Finding 2021-032 – 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: Keree J. Simmons, Director of Finance  
Central Falls School District  
[simmons\\_k@cfschools.net](mailto:simmons_k@cfschools.net)

## ***Finding 2021-033 – Corrective Action Plan***

Prior period adjustments were made to restate the financial statements as of June 30, 2020, for two purposes. Adjustments were made to the final total of accrued building permit fees and permit fee income, in addition misclassifications were identified and corrected in the Project Fund Account.

### *Building Permit Fee Adjustment*

During a reconciliation of building permit fee collection with the State Building Commission, it was brought to the District's attention that credit card fees had been collected by the State without the District's knowledge. With this and some other minor findings, the District had to adjust the final amounts for the period ended June 30, 2020 to accurately reflect building permit revenue and the amount due to the City of Providence.

### *Corrective Actions*

The District has worked closely with the State to develop a streamlined communication strategy on any new fees collected. In addition, the Director of Operations has been given access to review new permits that are issued. The State has also incorporated some changes to the building permit fee online portal regarding District issued permits. This includes incorporating some GIS integration, disabling the use of credit card for District fees, and an additional payment instruction page with the online portal. Internally, the District has worked with its Accounting Firm to set into place additional controls and improved bookkeeping.

### *Project Fund Misclassifications*

Several misclassifications were discovered in the Project Fund account during the transition to a third-party accounting firm.

### *Correction Actions*

The District and Accounting Firm will continue to review prior year financials to ensure there are no other misclassifications in addition to incorporating semi-annual General Ledger reviews to avoid any future issues.

Anticipated Completion Date: Ongoing

Contact Person: Amber IIsisko, Director of Operations  
I-195 Redevelopment District  
[ailcisko@195district.com](mailto:ailcisko@195district.com)



## ***Finding 2021-034 – Corrective Action Plan***

During the year, the District was the target of a phishing attack where the perpetrator portrayed an employee, successfully instructed management to amend payroll direct deposit information, and fraudulently obtained an employee's net pay for two payroll cycles totaling \$6,599.

### *Corrective Actions*

The District has taken a number of measures to prevent this from occurring again in consultation with its IT consultant, including adding an external tag to all emails stating it is coming from the outside, adding an extra security filter system, and enabling a multi-factor authentication on all accounts. Finally, management has also taken a cybersecurity training course.

Anticipated Completion Date: Ongoing

Contact Person: Amber Ilsisko, Director of Operations  
I-195 Redevelopment District  
[ailcisko@195district.com](mailto:ailcisko@195district.com)

## ***Finding 2021-035 – Corrective Action Plan***

In the last quarter of the fiscal year, it is part of the MET's annual procedures to review all balance sheet accounts in greater detail prior to fiscal year end. For the fiscal year in question, the chief accountant position was vacant due to a resignation in May of 2021 that was not filled until the following month. Given the temporary reduction in staffing and the time necessary to onboard a new employee, this procedure was delayed.

The MET has filled the chief accountant role with an extremely experienced individual who holds a Certified Public Accountant (CPA) license. The MET views this as a singular occurrence due to a change in staffing and not a failure of controls that will be repeated.

Anticipated Completion Date: Ongoing

Contact Person: Lucas Lussier, Chief Financial Officer / Business Manager  
The Metropolitan Regional Career and Technical School  
[llussier@metmail.org](mailto:llussier@metmail.org)

## ***Finding 2021-036 – Corrective Action Plan***

Due to significant turnover at the CFO position, the relative inexperience of staff accountants, the considerable increase in transactions for federal grant programs, and new programs related to the ongoing pandemic, a cutoff transaction was not accounted for properly at year-end by the accounting staff. Rhode Island Commerce Corporation has since hired a full-time CFO starting in early October 2021. Having a full-time CFO will provide consistent management oversight and experience to ensure the accounting staff manages revenue recognition appropriately at critical cut off points for reporting purposes.

Anticipated Completion Date: Ongoing

Contact Person: Justin Medeiros, Chief Financial Officer  
Rhode Island Commerce Corporation  
[justin.medeiros@commerceri.com](mailto:justin.medeiros@commerceri.com)



## **Finding 2021-037 – Corrective Action Plan**

We agree with this recommendation. The implementation of the Grants Management System will standardize and enforce UG requirements. The system will be implemented by December 31, 2022.

Anticipated Completion Date: December 31, 2022

Contact Person: Steve Thompson, Chief Strategy and Monitoring, Grants Management Office  
Department of Administration, Office of Management and Budget  
*steve.thompson@omb.ri.gov*

## **Finding 2021-038 – Corrective Action Plan**

We agree with the recommendations. The Grant Management System will enforce statewide policies and procedures to standardize and require timely FFATA reporting. The system is designed to include a FFATA information section at the subrecipient organizational level with the information agencies need for FSRs.

Training functionality for the GMS is part of the project plan.

Anticipated Completion Date: July 2022

Contact Person: Steve Thompson, Chief Strategy and Monitoring, Grants Management Office  
Department of Administration, Office of Management and Budget  
*steve.thompson@omb.ri.gov*

## **Finding 2021-039 – Corrective Action Plan**

User access is managed by a centralized group for DHS and EOHHS workers and privileged staff. HSRI customer support staff user access is separately managed by the customer support security manager with HSRI oversight. The HSRI customer support security manager and the state's centralized security management team effectively uses active user reports and each organization's HR records to confirm access is granted with the appropriate privilege and terminated in a timely manner. The metrics on users inactive for >90 days has been significantly reduced after a cleanup of old expired accounts in late 2021. Even though the manual process is currently effective, the MARSE-2 requirement for auto disabling of 60-day inactive accounts will be implemented in the security runway for SFY 23.

Automatic password expiration is fully functional for both privileged and the client user base as of June 2021.

Privilege access control edits are currently captured in a report and circulated for periodic review by the agency security managers to assure that changes to the user privileges are authorized. System level access is monitored and reviewed by the state UHIP security team. System level access reports are included in the monthly security scanning deliverables.

Anticipated Completion Date: Ongoing

Contact Person: Nicole Nelson, Interdepartmental Project Manager  
Executive Office of Health and Human Services  
*nicole.nelson@ohhs.ri.gov*



## **Finding 2021-040 – Corrective Action Plan**

The DoIT policy for Information Technology Security and Risk Program Management, PM-1 has been implemented for RIBridges. This policy is in alignment with the CMS MARS-E v2 security and privacy framework requirements that are mandated for the RIBridges system. A team of dedicated state and contractor staff are on board full time to implement, monitor and assess controls and then correct deficiencies through continuous monitoring on the system to manage risk. Inputs to the comprehensive system risk evaluation include: (1) third party vendor annual testing of the MARSE-v2 controls; (2) Soc2 Type2 audit report; (3) system security scanning; (4) continuous monitoring of system components, threats and required upgrades. The risk assessments are used for annual planning and security budget requirements. All identified risks are tracked and managed on a Corrective Action Plan until the risk is eliminated or reduced to an acceptable level.

Anticipated Completion Date: Ongoing

Contact Person: Nicole Nelson, Interdepartmental Project Manager  
Executive Office of Health and Human Services  
[nicole.nelson@ohhs.ri.gov](mailto:nicole.nelson@ohhs.ri.gov)

## **Finding 2021-041 – Corrective Action Plan**

The Department of Corrections plans to implement an upgrade to the current inventory system that will allow barcode scanning. The Department is working with DoIT on Wi-Fi issues as well as Atlantic Business Systems on implementation of the scanners into the inventory system. The target date for that upgrade is January 2023.

Anticipated Completion Date: January 2023

Contact Person: Brenda Brodeur, Chief Financial Officer  
Department of Corrections  
[brenda.brodeur@doc.ri.gov](mailto:brenda.brodeur@doc.ri.gov)

## **Finding 2021-042 – Corrective Action Plan**

**2021-042a** – DEM has implemented a centralized contract and subrecipient process. Each new vendor and subrecipient contract include a Subrecipient Determination Tool that is completed and reviewed by the Chief Financial Officer's designee. This form is currently included in all newly created contracts.

The determination tool is used to review vendor and subrecipient characteristics. Vendor match is just one characteristic that may be indicative of a subrecipient relationship. In some cases, the work performed may still classify the relationship as contractual even when match is provided. In these cases, the justification will include greater detail related to the determination. The Office of Management and Budget created the current tool found here: <https://accountscontrol.ecms.ri.gov/media/5646/download>.

Additionally, DEM will enhance communication between the Contract Coordinator and accounting staff in order to record and track each individual subrecipient agreement. The Contract Coordinator will provide an electronic file of the fully executed subcontract agreement to the accounting staff for inclusion within the electronic grant file.

The statewide Grant Management System is currently in the process of rolling out a subrecipient module. In the future state, there will be a centralized submission and application process for subrecipients through this system. Subrecipients will be required to register centrally.



## State of Rhode Island

Anticipated Completion Date: All new vendor and subrecipient contracts will have this determination tool effective immediately. The enhanced tracking excel database will be available by June 30, 2022.

2021-042b – DEM will centralize and formalize the review process for relevant audit reports and will file this documentation in a subrecipient electronic file. An employee will be identified to obtain relevant single audit reports and review any findings to determine subrecipient risk. Site visits will be scheduled when it is determined that audit findings pose a risk to the specific program.

Anticipated Completion Date: DEM will commence review on or after September 30, 2022 for all subrecipient audits filed for fiscal year ending June 30, 2022.

Contact Person: Emily Cahoon, Assistant Director, Financial and Contract Management  
Department of Environmental Management  
*emily.cahoon@dem.ri.gov*

### ***Finding 2021-043 – Corrective Action Plan***

2021-043a – Since 2021, DEM has worked to transition to a standard grant management spreadsheet that assures all grant matching requirements are met prior to submitting a drawdown for the federal funding. This grant tracking tool traces the detailed expenditures for both federal and matching funds.

DEM has also enhanced drawdown policies and procedures to incorporate an additional review and centralized approval prior to completing any drawdowns. Each drawdown identifies not only the federal funds but the associated matching expenses. Federal funds are not drawn unless the match has been met.

As the State of Rhode Island continues to move forward with the Grant Management System there will be further enhancements and improvements. The Grant Management System will also have an option to associate in kind and other expenses that occur outside of the state accounting system to the federal awards thereby reducing the amount of manual tracking required.

2021-043b – DEM currently requests new unique RIFANS line sequences for all new federal grant awards. Establishing a unique federal line sequence and with the additional requirement for the RIGID tagging within the Grant Management System, DEM will be able to trace not only the federal expenses to the award level but also the matching expenses.

Anticipated Completion Date: DEM has completed this enhanced tracking and transition prior to December 31, 2021.

Contact Person: Emily Cahoon, Assistant Director, Financial and Contract Management  
Department of Environmental Management  
*emily.cahoon@dem.ri.gov*

### ***Finding 2021-044 – Corrective Action Plan***

DEM will develop a plan to ensure that all properties acquired with federal funds are adequately maintained, consistent with all applicable federal program requirements. The property noted in the findings at Round Top Management area was purchased to provide access to fishing and while the headquarters building has been closed and is not currently in use, the property remains an active access point for fishing.



## State of Rhode Island

Anticipated Completion Date: DEM anticipates a plan for this property to be developed by June 30, 2023.

Contact Person: Emily Cahoon, Assistant Director, Financial and Contract Management  
Department of Environmental Management  
*emily.cahoon@dem.ri.gov*

### ***Finding 2021-045 – Corrective Action Plan***

Beginning in October of 2020, the Department of Justice's Office of Justice Programs rolled out a new grants management portal called JustGrants. The transition to this new platform was rife with obstacles and technical problems, several of which still exist today.

Among other features, this portal included a new method for completing the quarterly financial SF-425 report. The new method does not present the fields in the same manner as the previous reporting portal. Reporting fields do not cleanly line up with their requested information. It is likely that this led to the identified errors, where local matching funds were reported in the wrong spot.

Grantees must report "Total recipient share required, recipient share of expenditures, and remaining recipient share to be provided." In this case, the figures were entered into the incorrect field by the Administrative Manager, resulting in inaccurate reporting of matching expenditures.

PSGAO policies and procedures related to the preparation of quarterly financial reports will be modified in such a way to add a step wherein the "fiscal assistant" grant manager will compile the information for the Administrative Manager. The Administrative Manager will then review the compiled data for accuracy before it is entered into the JustGrants portal.

Anticipated Completion Date: September 30, 2022

Contact Person: Michael J. Hogan, Administrative Manager  
Department of Public Safety, Public Safety Grant Administration Office  
*michael.hogan@ripsga.gov*

### ***Finding 2021-046 – Corrective Action Plan***

Some of the agencies that PSGAO subgrants to meet the Single Audit requirement (when an agency spends more than \$750,000 of federal funds in one year). PSGAO requires that those agencies provide a copy of their audit results. PSGAO agrees that some agencies that are required to submit the results of their Single Audit Act have instead submitted results of internal audits that was not strictly compliant with the "Single Audit" requirement.

PSGAO believes that this finding is related to subrecipient risk assessment, not monitoring. The Office has a very robust subgrant monitoring program up to and including regular desk audits and a line-item review of every dollar requested for reimbursement.

In response to the needs of agencies around the country to adapt to the workplace realities of COVID-19, the Office for Victims of Crime requested modified subgrant monitoring plans that considered the nature of social distance guidance and remote work. The OVC approved a schedule of virtual site visits for 2021 that were conducted by PSGAO VOCA staff throughout the year.

PSGAO policies and procedures related to risk assessment of potential grant award subrecipients will be modified to ensure that agencies required to submit their Single Audit reports do so. Review of Single Audit reports and use of the Federal Audit Clearinghouse will be incorporated in the pre-award risk assessment process and will be reflected in the PSGAO's policies and procedures manual. This will include whether VOCA was tested as a major program and review of any audit findings.



## State of Rhode Island

PSGAO will be conducting in person site visits to all agencies over the summer and fall. PSGAO anticipates releasing an online sign-up form shortly and will submit documentation regarding the process and calendar of visits. PSGAO anticipates most site visits being conducted by 9/30/2022, but due to the number of agencies and potential scheduling conflicts some will occur throughout Fall 2022.

Anticipated Completion Date: September 30, 2022

Contact Person: Michael J. Hogan, Administrative Manager  
Department of Public Safety, Public Safety Grant Administration Office  
*michael.hogan@ripsga.gov*

### **Finding 2021-047 – Corrective Action Plan**

The state's Information Technology team has been working with the UI Administrative Benefits team to address this repeat finding. The Purchase Requisition (1758379) has been created for the DLT Strategic Plan RFP Posting. As of June 9, 2022, the requisition showing approved in RIFANS and the DoIT Vendor Management Office has been in contact with State Purchases for the assignment of a buyer and posting of the RFP. No vendor award will occur until after the new fiscal year starting in July. We are hopeful to have this completed by July 1, 2023.

Anticipated Completion Date: July 1, 2023

Contact Person: Kathy Catanzaro, Administrator, Operations Management  
Department of Labor and Training  
*kathy.catanzaro@dlt.ri.gov*

### **Finding 2021-048 – Corrective Action Plan**

The state's Information Technology team has been working with the UI Administrative Benefits team to address this repeat finding. A path is being set to address movement on the 15% project with a phased approach. We have a business analyst gathering requirements and asked for an approach that would provide a process to at least allow for 15% assessments first, even if manual at first, the focus will be on a more automated solution. Discussions on Non-Relief of charges will begin when programming for the 15% project is complete. We are hopeful to have the 15% penalty completed by July 1, 2023, and the non-relief of charges project completed by January 1, 2024.

Anticipated Completion Date: July 1, 2023: 15% Project  
January 1, 2024: Non-Relief of Charges

Contact Person: Kathy Catanzaro, Administrator, Operations Management  
Department of Labor and Training  
*kathy.catanzaro@dlt.ri.gov*

### **Finding 2021-049 – Corrective Action Plan**

2021-049a – The Department received approval in 2016 for the revised quality assurance program. The CFR requires approval of the plan, it does not call out written approval. The approval was verbal which conforms to the regulation. However, the Department continues to work with Federal Highway to update the over 100 templates and once that process is complete the Department will request Federal Highway to formally approve in writing.





## State of Rhode Island

2021-049b – The enhanced coordination has already begun to be put in place with the implementation of headlight, regularly scheduled meetings, staff reorganization, and the move from manual process to electronic process.

Anticipated Completion Date: December 31, 2022

Contact Person: Loren Doyle, Acting Chief Operating Officer / Chief Financial Officer  
Department of Transportation  
*loren.doyle@dot.ri.gov*

### **Finding 2021-050 – Corrective Action Plan**

2021-050a – On Monday June 12, 2022, the Department was notified by email by Federal Highway that the Consultant Service Manual was approved. Federal highway indicated an approval letter would be coming shortly.

Anticipated Completion Date: Completed

2021-050b – RIDOT will work with the Bureau of Audits to see how the indirect cost rate reviews can be accomplished. The Department will also research to determine if there are Federally approved indirect cost rates for utility companies.

Anticipated Completion Date: December 31, 2022

Contact Person: Loren Doyle, Acting Chief Operating Officer / Chief Financial Officer  
Department of Transportation  
*loren.doyle@dot.ri.gov*

### **Finding 2021-051 – Corrective Action Plan**

RIDOT Finance and Transit sections are working together to put processes in place to address period of performance. The Department understands period of performance and compliance. The Department updated the period of performance dates on the quarterly milestone reports that are submitted to and approved by FTA on a quarterly basis. FTA did not indicate the original grant agreement required amendments also and they continued to reimburse expenses therefore the Department felt updating the period of performance on the milestone reports that are approved by FTA was sufficient. While the audit lists questioned costs, the Department has spoken with FTA and they agree no funds will be requested to be paid back. Going forward, as the milestone reports update the period of performance, the Department will also submit grant amendments to update the original grant agreements.

Anticipated Completion Date: Implemented for FY 2022

Contact Person: Loren Doyle, Acting Chief Operating Officer / Chief Financial Officer  
Department of Transportation  
*loren.doyle@dot.ri.gov*





**Finding 2021-052 – Corrective Action Plan**

RIPTA going forward will use actual allowable expenses incurred during the period of eligibility.

Anticipated Completion Date: Completed

Contact Person: Paul Dilorio, Director of Accounting  
Rhode Island Public Transit Authority  
*pdiiorio@ripta.com*

**Finding 2021-053 – Corrective Action Plan**

RIPTA will ensure all requisitions are written and approved prior to any draw down is made.

Anticipated Completion Date: Completed

Contact Person: Paul Dilorio, Director of Accounting  
Rhode Island Public Transit Authority  
*pdiiorio@ripta.com*

**Finding 2021-054 – Corrective Action Plan**

RIPTA obtained the signed Subrecipient Agreement on February 11, 2021 for the subaward active during the 2021 fiscal year. Going forward, RIPTA will follow its subrecipient policies and procedures, including obtaining timely executed grant award notices and subrecipient agreements, as well as keeping well-documented subrecipient monitoring files. The monitoring files will include a reporting schedule and itemized invoices to properly track spending.

Anticipated Completion Date: Completed

Contact Person: Paul Dilorio, Director of Accounting  
Rhode Island Public Transit Authority  
*pdiiorio@ripta.com*

**Finding 2021-055 – Corrective Action Plan**

RIPTA has not kept all documentation with the Echo where in the past it was separated. This will ensure that no documentation will be misplaced.

Anticipated Completion Date: Completed

Contact Person: Paul Dilorio, Director of Accounting  
Rhode Island Public Transit Authority  
*pdiiorio@ripta.com*



## **Finding 2021-056 – Corrective Action Plan**

RIPTA will review all documentation prior to reimbursement to make sure all detail backup is attached.

Anticipated Completion Date: Completed

Contact Person: Paul Dilorio, Director of Accounting  
Rhode Island Public Transit Authority  
*pdiiorio@ripta.com*

## **Finding 2021-057 – Corrective Action Plan**

RIPTA after discussions with FTA was recommended not to be specific on the type of buses being bought, but just to say the number of buses and dollar amount. We do not need to put the size of the bus in the grant write up. Any open grants for buses will be amended to take out the size of the buses.

Anticipated Completion Date: Completed

Contact Person: Paul Dilorio, Director of Accounting  
Rhode Island Public Transit Authority  
*pdiiorio@ripta.com*

## **Finding 2021-058 – Corrective Action Plan**

A reconciliation of CRF expenditures and activities begun during FY22. This reconciliation validated the use of CRF to PRO approved activity and corrected the posting of CRF expenditures to the proper accounts.

Anticipated Completion Date: September 30, 2022

Contact Person: Dorothy Pascale, State Controller  
Department of Administration, Office of Accounts and Control  
*dorothy.z.pascale@doa.ri.gov*

## **Finding 2021-059 – Corrective Action Plan**

We disagree with classifying the costs as questionable. The costs for the legal case management software were not budgeted during FY21 and therefore, although the project was considered, it was not slated to move forward. The pandemic forced attorneys to work remotely with no access to paper files and calendars. There was a new need to suddenly calendar remote hearings and deadlines (not a thing pre-COVID). Also, attorneys from different agencies collaborated on legal COVID work (i.e. RIDOH and DBR) which necessitated sharing legal calendars, documents and deadlines inter-agency which had not been contemplated prior to COVID, and did not happen pre-COVID. Due to these extenuating circumstances and the fact that the project was not budgeted allows for CRF use.

Anticipated Completion Date: To Be Determined

Contact Person: Dorothy Pascale, State Controller  
Department of Administration, Office of Accounts and Control  
*dorothy.z.pascale@doa.ri.gov*



## ***Finding 2021-060 – Corrective Action Plan***

The implementation of the Grants Management System (GMS) at end of calendar year 2022 will address this finding as it improves agency subrecipient monitoring. Agency training will include the need to collect single audit reports.

Anticipated Completion Date: January 2, 2023

Contact Person: Steve Thompson, Director, Grants Management Office  
Department of Administration, Office of Management & Budget  
*steve.thompson@omb.ri.gov*

## ***Finding 2021-061 – Corrective Action Plan***

A reconciliation of CRF expenditures and activities begun during FY22. This reconciliation validated the use of CRF to PRO approved activity and corrected the posting of CRF expenditures to the proper accounts.

Anticipated Completion Date: September 30, 2022

Contact Person: Dorothy Pascale, State Controller  
Department of Administration, Office of Accounts and Control  
*dorothy.z.pascale@doa.ri.gov*

## ***Finding 2021-062 – Corrective Action Plan***

RIDOH agrees with the finding and recommendations. Deficiencies and a lack of controls around a State of Rhode Island integrated time and effort reporting system had been identified as a priority prior to RIDOH's FY2021 audit. The RFP for the Enterprise Resource Program (ERP) will completely correct this deficiency at RIDOH. The Human Resources/Payroll module is set to go live in December 2023 and as such, a short-term corrective action has been identified.

- RIDOH has worked with DoIT to set up a dedicated SharePoint site (via Microsoft Teams) for centralized storage of timesheets. Folders will be created for the different divisions and centers for file upload with access limited to those identified by RIDOH leadership and finance. Master Time Sheet Coordinators will be given access to the relevant folders, and training to assure that all submitted and signed time sheets are appropriately stored with standard naming conventions, including clearly identified amended time sheets. Some Divisions/Centers at RIDOH have existing MS Teams storage of weekly time sheets; the Master Time Sheet Coordinators for these areas also will be trained to assure consistency across the Department.
- The list of Programs/Activities and associated RIFANS account numbers included in the RIDOH Time Sheet Workbooks will be reviewed and edited to assure that no expired awards/accounts are available for selection by staff. Training will be provided to staff and supervisors so all individuals submitting time sheets and supervisors approving time sheets are aware of their appropriate accounts and allocations. Programs/Activities for COVID work will be updated to clearly indicate the Workstream supported and charge account(s), both for regular worked hours and any necessary Overtime, Compensatory Time, or Holiday Worked time.

Anticipated Completion Date: September 30, 2022



## State of Rhode Island

Contact Persons: Lisa Morris, Chief Financial Officer  
Rhode Island Department of Health  
*lisa.morris@health.ri.gov*

Carla Lundquist, Deputy Chief Financial Officer, Grants Management  
Rhode Island Department of Health  
*carla.lundquist@health.ri.gov*

### **Finding 2021-063 – Corrective Action Plan**

RIDOH agrees with the finding and recommendation. Full implementation of the statewide Grants Management System (eCivis) will provide a coordinated system to identify and monitor subrecipients statewide. This will reduce replication of effort between state agencies for single audit reports review. Pending full implementation (which may take several years due to the varied renewal schedules for subaward RFPs and contract authorizations), RIDOH will develop and implement an interim process to assure that all subrecipients are identified promptly and single audit reports are reviewed at least annually. The Purchasing staff at RIDOH maintains a master list of all contracts issued, differentiated between vendors and subrecipients. All subrecipients will be assigned to a calendar quarter for single audit review. The contract list will be reviewed quarterly for any changes, and subrecipients will be added/removed from the quarterly review schedule as needed. Staff will be trained to retrieve reports from the Federal Audit Clearinghouse, review reports, and record the review results.

Anticipated Completion Date: June 30, 2023

Contact Persons: Lisa Morris, Chief Financial Officer  
Rhode Island Department of Health  
*lisa.morris@health.ri.gov*

Dorinda Keene, Deputy Chief Financial Officer, Purchasing  
Rhode Island Department of Health  
*dorinda.l.keene@health.ri.gov*

Carla Lundquist, Deputy Chief Financial Officer, Grants Management  
Rhode Island Department of Health  
*carla.lundquist@health.ri.gov*

### **Finding 2021-064 – Corrective Action Plan**

The State and the Systems Integrator have a continued to provide clarification for the field workers to ensure that all required documents are requested and scanned into the system. Document verification and use of available resources like SSA, new hire, SWICA and the Work Number are available for the field staff to use.

Additional training for the field staff is continuously being conducted to ensure that both documentation and resources are utilized for TANF. Field staff will be asked to verify all documentation during interim and recertifications. Specialized meetings with ECAs occur quarterly, document review is discussed regularly.

Anticipated Completion Date: June 2023

Contact Person: Kimberly Rauch, RI Works/TANF Administrator  
Department of Human Services  
*kimberly.rauch@dhs.ri.gov*



## **Finding 2021-065 – Corrective Action Plan**

Review training and support materials related to co-share calculation, collection and documentation of payroll information related to CCAP eligibility. System update to stop negative impact/denial of eligibility when initial pay date is after the employment start date. Review training and support materials related to residency verification and required documentation. Work with CSDL team on refresher training and/or updates to support materials related to documentation and co-share calculation.

Anticipated Completion Date: June 2023

Contact Person: Sharon Fitzgerald, Assistant Administrator, CCAP  
Department of Human Services  
[sharon.fitzgerald@dhs.ri.gov](mailto:sharon.fitzgerald@dhs.ri.gov)

## **Finding 2021-066 – Corrective Action Plan**

Report instructions have been revised to include completion of reconciliation between reports and the state accounting system (RIFANS). Requirements to reconcile adjustments that cross federal fiscal years will be prioritized. Management will ensure reconciliations occur timely and reports are accurate

Anticipated Completion Date: June 2022

Contact Person: Eileen Asselin, Assistant Director, Contract and Financial Management  
Department of Human Services  
[eileen.asselin@dhs.ri.gov](mailto:eileen.asselin@dhs.ri.gov)

## **Finding 2021-067 – Corrective Action Plan**

The Department disagrees with the finding. The Department has determined the feasibility to develop a centralized process to monitor both family homes and childcare centers and has concluded it is possible with the development of a workforce registry. It is anticipated that the RFP process for the creation of a workforce registry will begin at the end of the month. Once a workforce registry has been created, center staff will be required to upload their most recent comprehensive background checks. However, the Department's current requirements are in compliance with ACF and are not required to be in the file at the Department. It is important to note that the OIG monitoring and subsequent findings and report we based on an audit at DCYF which was the Child Care Licensing agency at that time. It was DCYF that the OIG found was non-complaint with their comprehensive background checks, in that the background did not meet ACF standards at that time. Upon DHS assuming the Licensing of Child Care from DCYF, DHS completed an initial audit of all child care staff to ensure every staff member in October 2019 completed and passed the comprehensive background check. In addition, the Department increased the number of employees from 5 to 6 once licensing transferred to DHS in late 2020. Since the completion of DHS' audit at the end of 2019, DHS continues to ensure compliance for all new staff every year at renewal. DHS also selects three random staff files at each center visit for compliance. If a non-compliant comprehensive background is found during the yearly renewal visit, DHS will review all center employees for compliance at that time.

Anticipated Completion Date: Completed – anticipated Workforce registry completion - 2023

Contact Person: Nicole Chiello, Child Care Administrator  
Department of Human Services  
[nicole.chiello@dhs.ri.gov](mailto:nicole.chiello@dhs.ri.gov)



## **Finding 2021-068 – Corrective Action Plan**

The State recognizes this issue for FY 21. Medicaid identified a coding issue within RIBridges that resulted in the system not recognizing active TPL when evaluating eligibility for CHIP/non-CHIP Medicaid. The code was fixed in the May 19, 2022, system release. A one-time eligibility correction will be executed to ensure existing cases are evaluated with the updated logic. EOHHS will identify ineligible CHIP costs and return them to the federal grantor.

Anticipated Completion Date: December 2022

Contact Person: Nicole Nelson, Interdepartmental Project Manager  
Executive Office of Health and Human Services  
*nicole.nelson@ohhs.ri.gov*

## **Finding 2021-069 – Corrective Action Plan**

For finding regarding 42 CFR 438.602(e) Periodic audits, EOHHS has contracted with its External Quality Review Organization (EQRO) to conduct an audit of encounter data claims starting in May 2022. This will be conducted every three years per requirements.

EOHHS will modify its contract to ensure compliance with annual audited financial reports specific to the Medicaid contract on an annual basis.

Anticipated Completion Date: January 2023

Contact Person: Mark Kraics, Project Manager Consultant  
Executive Office of Health and Human Services  
*mark.kraics@ohhs.ri.gov*

## **Finding 2021-070 – Corrective Action Plan**

EOHHS has implemented the necessary functionality to screen and enroll Managed Care providers in accordance with the 21st Century Cures Act requirements. Working collaboratively with the Medicaid MCOs, the State has set forth a schedule that will enroll providers based on provider type, in waves through February 2023.

Anticipated Completion Date: February 2023

Contact Person: Nicole Nelson, Interdepartmental Project Manager  
Executive Office of Health and Human Services  
*nicole.nelson@ohhs.ri.gov*

## **Finding 2021-071 – Corrective Action Plan**

EOHHS is working with the MCOs in the FY21 contract settlement to review records substantiating financial settlements with the OAGs support to improve controls. In addition, in the modularization of MMIS, EOHHS aims to have the system better able to accommodate system-based payouts. Relatedly, in the FY23 contract amendment for MCOs, EOHHS intends to include encounter data quality requirements with penalties for non-compliance.



## State of Rhode Island

Anticipated Completion Date: Ongoing

Contact Person: Katie Alijewicz, Medicaid CFO  
Executive Office of Health and Human Services  
[katie.alijewicz@ohhs.ri.gov](mailto:katie.alijewicz@ohhs.ri.gov)

### ***Finding 2021-072 – Corrective Action Plan***

2021-072a – The State recognizes this issue for FY 21. Medicaid identified a coding issue within RIBridges that resulted in the system not recognizing active TPL when evaluating eligibility for CHIP/non-CHIP Medicaid. The code was fixed in the May 19, 2022, system release. A one-time eligibility correction will be executed to ensure existing cases are evaluated with the updated logic.

2021-072b – EOHHS will require HHS agencies to submit the reconciliations of their quarterly reports now that all agencies except RIDOH have cost allocation plans from PCG. In addition, EOHHS will implement earlier deadlines from the other agencies to ensure we are reporting what has been drawn down to avoid potential reporting issues at the end of the FFY.

2021-072c – EOHHS will conduct this analysis.

Anticipated Completion Date: December 2022

Contact Person: Katie Alijewicz, Medicaid CFO  
Executive Office of Health and Human Services  
[katie.alijewicz@ohhs.ri.gov](mailto:katie.alijewicz@ohhs.ri.gov)

### ***Finding 2021-073 – Corrective Action Plan***

EOHHS has spent a considerable amount of time defining the future-state of TPL data exchanged between Medicaid (MMIS) and the MCOs. Language was included in the (now cancelled) MCO RFQ with MCOs to share TPL files with EOHHS. Future contract language given collineation of RFQ will include requirements to better identify TPL by the MCOS and ensure that Medicaid is payor of last resort. EOHHS will amend its contract to reflect updates practices regarding TPL identification and the FDCR will account for TPL claims.

Anticipated Completion Date: Ongoing

Contact Person: Mark Kraics, Project Manager Consultant  
Executive Office of Health and Human Services  
[mark.kraics@ohhs.ri.gov](mailto:mark.kraics@ohhs.ri.gov)

### ***Finding 2021-074 – Corrective Action Plan***

Inpatient Hospital Reimbursement – EOHHS created an annual review template that EOHHS staff can use to conduct the annual rate review as required in the State Plan. The template includes a check of any changes to the DRG algorithm version, the DRG relative weights, the DRG Base Price(s), the outlier thresholds, outlier payment parameters, policy adjustors, and the age adjustors. EOHHS shared a draft of the template with OAG staff members who noted it was adequate and will meet the requirements of the State Plan. The template was used beginning with SFY 22 rate changes; therefore, EOHHS does not anticipate a repeat audit finding for inpatient hospital reimbursement in SFY 22.





## State of Rhode Island

**Nursing Facility Reimbursement** – This finding includes two components: (1) Periodic audit of financial records and (2) triennial rate review. Both require a State Plan Amendment which must be authorized by the General Assembly. EOHHS requested that the General Assembly authorize EOHHS to remove this language from its State Plan or to allocate the administrative funding necessary for EOHHS to comply. No authorization was given to EOHHS in SFY21, but we expect the SFY23 budget will have the authorization to remove the language from the State Plan.

Anticipated Completion Date: December 2022

Contact Person: Katie Alijewicz, Medicaid CFO  
Executive Office of Health and Human Services  
[katie.alijewicz@ohhs.ri.gov](mailto:katie.alijewicz@ohhs.ri.gov)

### **Finding 2021-075 – Corrective Action Plan**

**2021-075a** – Industry standards do not include NCCI edit reviews in SOC auditing. EOHHS/Medicaid is exploring alternative methods for validation to satisfy this audit.

**2021-075b** – MES (Medicaid Enterprise System) procurement planning is active and ongoing. EOHHS will ensure inclusion of NCCI edit requirements.

**2021-075c** – NCCI editing has been included in the (now cancelled) MCO RFQ. Future RFQ material will likewise include language for NCCI editing compliance with specific regarding EOHHS' oversight of NCCI requirements

Anticipated Completion Date: Ongoing

Contact Person: Nicole Nelson, Interdepartmental Project Manager  
Executive Office of Health and Human Services  
[nicole.nelson@ohhs.ri.gov](mailto:nicole.nelson@ohhs.ri.gov)

### **Finding 2021-076 – Corrective Action Plan**

**2021-076a** – As of June 13, 2022, the PRTF State Plan Amendment is pending CMS Approval. EOHHS continues to work CMS to address its questions, specifically on the PRTF Upper Payment Limit Demonstration, which was required to be submitted along with the State Plan Amendment. Once the State Plan Amendment is approved, EOHHS will have a State Plan Amendment which will codify the PRTF reimbursement process, thereby avoiding a repeat finding.

**2021-076b** – EOHHS will continue to work to ensure that allowable medical services provided by DCYF providers are billed directly to the MMIS and subject to all designed claims processing, recipient eligibility, and provider eligibility controls.

Anticipated Completion Date: Ongoing

Contact Person: Nicole Nelson, Interdepartmental Project Manager  
Executive Office of Health and Human Services  
[nicole.nelson@ohhs.ri.gov](mailto:nicole.nelson@ohhs.ri.gov)





**Finding 2021-077 – Corrective Action Plan**

2021-077a – The Agency concurs with this recommendation. The reporting error was a manual error and clerical in nature. The causation was attributable to the unprecedented size and scope of the COVID 19 disaster event. The Agency is in the process of assimilating all of the grant accounting records into the new statewide Grants Management System (GMS). The internal controls and standardized and automated reporting features of this system will mitigate the prospect of another occurrence of such an event.

2021-077b – The Agency concurs with this recommendation. The Agency has already contacted the federal award agency and disclosed the finding. It should be noted that the federal award agency had not identified the error prior to Agency contact. The Agency is preparing revised SF-425 reports for state fiscal year 2021 to reflect corrected expenditures and drawdowns for the period.

Anticipated Completion Date: June 30, 2022

Contact Person: Therese Chalko, Chief Financial Officer  
Rhode Island Emergency Management Agency  
*therese.chalko@ema.ri.gov*

**Finding 2021-078 – Corrective Action Plan**

The Department will work with our IT department to resolve the issue of supplementing the minimum weekly benefit amount to accommodate the Executive Order.

Anticipated Completion Date: December 31, 2022

Contact Person: Kathy Catanzaro, Administrator, Operations Management  
Department of Labor and Training  
*kathy.catanzaro@dlt.ri.gov*

**Summary Schedule  
of Prior Audit Findings**  
(prepared by the State's management)



<b>Summary Schedule of Prior Audit Findings Table of Prior Findings by Federal Program</b>		
<u>Program Title</u>	<u>Assistance Listing Number</u>	<u>Findings included in Previous Single Audit Reports</u>
Financial Statements	N/A	2019-006, 2019-009, 2019-012, 2019-035, 2020-001, 2020-002, 2020-003, 2020-004, 2020-005, 2020-006, 2020-007, 2020-008, 2020-009, 2020-010, 2020-011, 2020-012, 2020-013, 2020-014, 2020-015, 2020-016, 2020-017, 2020-018, 2020-019, 2020-020, 2020-021, 2020-022, 2020-023, 2020-024, 2020-025
Supplemental Nutrition Assistance Program (SNAP) Cluster:		2020-026, 2020-027, 2020-028
Supplemental Nutrition Assistance Program (SNAP)	10.551	
State Administrative Matching Grants for SNAP	10.561	
Child Nutrition Cluster:		2018-044
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	
WIC Supplemental Nutrition Program for Women, Infants, and Children	10.557	2020-029
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	2019-041, 2019-042
Unemployment Insurance	17.225	2020-030, 2020-031, 2020-032
Federal Transit Cluster:		2019-044, 2020-035, 2020-036
Federal Transit Capital Investment Grants	20.500	
Federal Transit Formula Grants	20.507	
State of Good Repair Grants Program	20.525	
Bus and Bus Facilities Formula Program	20.526	
Coronavirus Relief Fund	21.019	2020-033, 2020-034
Student Financial Assistance Cluster:		2020-037, 2020-038, 2020-039, 2020-040
Federal Supplemental Education Opportunity Grants	84.007	
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	

<b>Summary Schedule of Prior Audit Findings Table of Prior Findings by Federal Program</b>		
<u>Program Title</u>	<u>Assistance Listing Number</u>	<u>Findings included in Previous Single Audit Reports</u>
Temporary Assistance for Needy Families	93.558	2020-026, 2020-027, 2020-041, 2020-042, 2020-043, 2020-044
Low-Income Home Energy Assistance Program	93.568	2020-045, 2020-046, 2020-047, 2020-048
CCDF Cluster:		
Child Care and Development Block Grant	93.575	2020-026, 2020-027, 2020-044, 2020-049
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	
Foster Care Title IV-E	93.658	2020-050, 2020-051
Adoption Assistance	93.659	2020-050, 2020-051, 2020-052,
Children's Health Insurance Program	93.767	2020-026, 2020-027, 2020-053, 2020-055, 2020-060, 2020-061, 2020-062, 2020-063, 2020-064
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	2018-069, 2019-066, 2020-026, 2020-027, 2020-054, 2020-055, 2020-056, 2020-057, 2020-058, 2020-059, 2020-060, 2020-061, 2020-062, 2020-063, 2020-064, 2020-065
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777	
Medical Assistance Program	93.778	
Opioid STR	93.788	
HIV Care Formula Grants	93.917	2020-065, 2020-066, 2020-067, 2020-068
		2020-069, 2020-070, 2020-071, 2020-072

**Finding 2018-044** – CFDA 10.553; 10.555; 10.556; 10.559 (Reported Initially in Finding 2013-030)

The Department of Corrections needs to ensure that it complies with federal regulations governing the receipt, distribution and inventory of USDA-Donated Foods.

- 2018-044 Improve the functionality of the software used to account for USDA-Donated Foods to ensure compliance with federal regulations.

**Status:** *Partially Implemented. See Finding 2021-041 for current year update and recommendation.*

**Finding 2018-069** – CFDA 93.775; 93.777; 93.778 (Reported Initially in Finding 2017-074)

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.

- 2018-069 Recoup the advances to providers and credit the federal grantor for their portion of advances made.

**Status:** *Not Implemented. As the State recoups amounts from these providers as outstanding claims are processed, advances charged to Medicaid will be credited back to the federal grantor. Questioned Cost finding applicable to 2018.*

**Finding 2019-006** – Financial Statement Finding

The processes followed for periodic physical inventories of capital assets and the evaluation of inventory results can be enhanced to ensure that accurate capital asset records are maintained.

- 2019-006a Include staff from Office of Accounts and Control on the team performing each cyclical, departmental capital asset inventory.
- 2019-006b Enhance review and inquiry for material capital assets reported as not found before assets are removed from the State's capital asset inventory records.

**Status:** *Partially Implemented. See Finding 2021-020 for current year update and recommendation.*

**Finding 2019-009** – Financial Statement Finding (Reported Initially in Finding 2018-007)

Policies need to be further enhanced to guide the manner in which costs are charged to and reimbursed from the Information Technology internal service fund.

- 2019-009 Develop policies consistent with the State's accounting policies and generally accepted accounting principles to provide for consistent recognition of revenue and expense to ensure the internal service fund operates on as close to a break-even model as possible.

**Status:** *Implemented.*

**Finding 2019-012** – Financial Statement Finding (Reported Initially in Finding 2017-007)

The form and content of the State's annual operating budget should be enhanced to facilitate alignment with the specific funds used to account for activities and to provide more effective planning, management and monitoring tools.

- 2019-012a Improve the presentation of the budget amounts for transportation activities. Consider changes in the level of detail and include all transportation activity.
- 2019-012b 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.
- 2019-012c Include fund information within the budget to facilitate recording the budget in the accounting system and preparing budget-to-actual comparisons.

**Status:** *Partially Implemented. Issue not reported as a significant deficiency in internal control for fiscal year 2021.*

**Finding 2019-035 – Financial Statement Finding** (Reported Initially in Finding 2018-031)

The Employees' Retirement System can improve accounting for investment expenses.

- 2019-035a Formalize the investment income and expense processes that are external to the investment custodian and result in amounts recorded on the financial statements. Enhance monitoring and review of these processes.
- 2019-035b Integrate certain investment accounting functions that are now external to oversight of the System's Chief Financial Officer with the System's other accounting functions.

**Status:** *Implemented.*

**Finding 2019-041 – CFDA 14.228**

The Office of Housing and Community Development (OHCD) should improve procedures to ensure federal reports are retained and adequately supported by underlying records.

- 2019-041 Enhance procedures for maintaining adequate documentation to ensure that federal reports are properly submitted and accurately reflect underlying information.

**Status:** *Partially Implemented. Implementation continues with completion in fiscal 2022.*

**Finding 2019-042 – CFDA 14.228**

Tracking and monitoring of locally-held program income generated by Community Development Block Grants (CDBG) activities should be enhanced by OHCD.

- 2019-042 Strengthen procedures for tracking program income generated and retained by CDBG subrecipients sufficient to ensure that amounts are used in accordance with federal regulations.

**Status:** *Partially Implemented. Implementation continues with completion in fiscal 2022.*

**Finding 2019-044 – CFDA 20.500; 20.507; 20.525; 20.526**

RIDOT subrecipient monitoring procedures need to be enhanced to ensure that funds are used by subrecipients in compliance with FTA program laws and regulations.

- 2019-044a Obtain and review Federal Transit Cluster subrecipient audit reports and issue management decisions, as applicable, for findings related to pass-through awards to the subrecipient.
- 2019-044b Ensure contracts and subaward documentation contain all the required elements at the time of award to ensure compliance with subgrantees.

**Status:** *Implemented.*

**Finding 2019-066 – CFDA 93.775; 93.777; 93.778**

Improvements in policies and procedures related to Medicaid claiming for patients at Eleanor Slater Hospital are needed to ensure compliance with federal requirements.

- 2019-066a Conclude the external review of BHDDH billing practices with respect to compliance with the IMD exclusion and services provided to forensic patients.
- 2019-066b Adopt a policy, for inclusion in the Medicaid State Plan, regarding the frequency of measurement of the IMD exclusion ratio and related policies for determining the primary diagnosis of patients at the Eleanor Slater Hospital. Include applicable monitoring procedures to be employed by EOHHS, as the State Medicaid agency, to ensure the allowability of Medicaid reimbursement.

**Status:** *Implemented.*

**Finding 2020-001 – Financial Statement Finding**

*(Reported Initially in Findings 2016-001 and 2016-021)*

The State completed a strategic plan to coordinate needed replacements/enhancements to its key statewide financial and administrative systems. Implementation and funding of the strategic plan is essential to ensure that critical legacy financial systems, such as the payroll system, which pose a business continuity risk, will be available to support State operations.

2020-001a Implement the comprehensive strategic plan to address the business continuity risks, deficiencies in controls over financial reporting and operational inefficiencies identified in the State's current financial systems.

2020-001b Secure a consistent funding stream to ensure resources are available for the project through completion.

**Status:** *Partially Implemented. See Finding 2021-001 for current year update and recommendation.*

**Finding 2020-002 – Financial Statement Finding**

Controls over the processing of unemployment insurance claims are ineffective to sufficiently prevent fraudulent unemployment insurance benefit payments. The State's system used to process unemployment insurance claims utilizes outdated technology. Recent efforts to develop a new system remain incomplete.

2020-002a Continue to enhance procedures to timely identify fraudulent claims by strengthening controls within the legacy claims processing system as well as those newly implemented processing functionalities employed to meet the increase in claims activity.

2020-002b Implement a strategic plan to address the required modernization of the unemployment benefit claims processing system which addresses the State's investment to date in the multi-state consortium project.

**Status:** *Partially Implemented. See Finding 2021-002 for current year update and recommendation.*

**Finding 2020-003 – Financial Statement Finding**

The State does not have a process to quantify unemployment insurance benefits approved but unpaid at fiscal year end.

2020-003 Enhance Employment Security Fund fiscal closing procedures to identify and accrue benefits approved and unpaid at year-end.

**Status:** *Implemented.*

**Finding 2020-004 – 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.

2020-004a formalize a risk assessment process for significant Medicaid related activities to determine where controls and other data validation procedures are required. Delineate those control responsibilities delegated to contractors, the source and reliability of the data utilized in those processes, and whether those processes are sufficient to ensure accurate financial reporting of these Medicaid activities.

2020-004b Utilize managed care contract audit provisions to validate data provided by managed care organizations for significant financial program activities.

2020-004c Minimize instances where material financial activities are reliant on manual processes to ensure proper financial reporting.

**Status:** *Partially Implemented. See Finding 2021-003 for current year update and recommendation.*

**Finding 2020-005 – Financial Statement Finding**

*(Reported Initially in Finding 2017-008)*

The Executive Office of Health and Human Services (EOHHS) authorized more than \$190 million in disbursements (system payouts and manual payments) and \$100 million in system recoupments during fiscal 2020. This financial activity represents transactions outside of the normal claims processing functionality of the Medicaid Management Information System (MMIS). While these types of payments are necessary within Medicaid, the reporting and internal control processes relating to these types of disbursements and recoupments are manual and external to other established control procedures. Such amounts are not easily identified or quantified by the MMIS.

- 2020-005a Adopt policies that formalize the financial transaction type that best aligns with the nature of the transaction.
- 2020-005b Develop comprehensive reporting for system payouts, manual disbursements, and system recoupments to improve the transparency of these transactions processed by the Medicaid fiscal agent.

**Status:** *Partially Implemented. See Finding 2021-004 for current year update and recommendation.*

**Finding 2020-006 – Financial Statement Finding**

*(Reported Initially in Finding 2016-002)*

Management focus, training and implementation resources have been insufficient to ensure that departments and agencies are assessing and documenting internal control consistent with management’s overall responsibility for the adequacy of the design and operation of internal control. Internal controls safeguard public resources and support accurate financial reporting.

- 2020-006a Commit additional resources to training and implementation materials to ensure that departments and agencies are adequately documenting their internal controls to reflect an understanding of its required elements in accordance with an acceptable framework such as COSO or the Green Book.
- 2020-006b Implement an internal control assessment and documentation effort to coincide with the implementation of a fully integrated ERP system.

**Status:** *Not Implemented. See Finding 2021-005 for current year update and recommendation.*

**Finding 2020-007 – Financial Statement Finding**

*(Reported Initially in Findings 2018-033 and 2019-005)*

The State can continue to improve its consideration of controls over functions performed by external parties by enhancing use and documentation of Service Organization Control (SOC) reports provided by the external parties. These improvements are necessary and consistent with management’s responsibility for the overall adequacy of the design and operation of internal control.

- 2020-007a Enhance training and monitoring to ensure compliance with newly implemented SOC report evaluation procedures.
- 2020-007b Ensure that relevant complimentary user entity (State) controls identified by service organizations are also in place and operating effectively.
- 2020-007c Ensure expectations and auditor report modifications included in SOC reports are evaluated timely and documented regarding the impact on the State’s overall control procedures.

**Status:** *Partially Implemented. See Finding 2021-006 for current year update and recommendation.*

**Finding 2020-008 – Financial Statement Finding**

*(Reported Initially in Finding 2015-008)*

The State can enhance certain system access controls within the RIFANS statewide accounting system.

- 2020-008a Enhance current procedures for reviewing the activities of “super users” (including system administrators) on a scheduled basis to ensure that additions, modifications, and deletions initiated by them are appropriate. Assess the potential for systemic changes when completing the State’s strategic plan for designing and implementing a fully integrated ERP system.
- 2020-008b Implement policies regarding “super users” modifications of their own access and authorization.
- 2020-008c Improve controls over RIFANS access by ensuring consistent use of the reporting functions and by modifying existing procedures to ensure that all changes are being properly authorized and documented and reflected accurately in agency hierarchies and system workflows.

**Status:** *Partially Implemented. See Finding 2021-007 for current year update and recommendation.*



**Finding 2020-009 – Financial Statement Finding** *(Reported Initially in Finding 2015-003)*

Statewide accounting controls over receivables should be enhanced.

- 2020-009a Explore options to enhance statewide general ledger controls over receivables. Ensure all balances referred to the CCU for collection have been reflected in the RIFANS general ledger and financial statements.
- 2020-009b Improve accounting controls over COVID-19 testing receivables to ensure completeness of billing and collections and appropriate crediting to the original funding source, where applicable.

**Status:** *Not Implemented. See Finding 2021-008 for current year update and recommendation.*

**Finding 2020-010 – 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.

- 2020-010 Implement controls to ensure that the allocable share of federal program expenditures is consistent with grant award limitations. Reassess the current FGIS process with the goal of enhancing compliance and effectiveness.

**Status:** *Partially Implemented. See Finding 2021-009 for current year update and recommendation.*

**Finding 2020-011 – Financial Statement Finding** *(Reported Initially in Finding 2017-010)*

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.

- 2020-011 Complete implementation of effective oversight and monitoring responsibilities for funds on deposit with fiscal agents.

**Status:** *Implemented.*

**Finding 2020-012 – Financial Statement Finding** *(Reported Initially in Findings 2015-006 and 2015-012)*

The State should formalize identification of major systems, standardize application testing, and incorporate business continuity planning within its overall disaster recovery testing.

- 2020-012a Formalize and communicate the restoration priority of major applications and communicate the priority order with the affected State agencies within disaster recovery tests at the State's designated disaster recovery site.
- 2020-012b Establish a repeatable level of application testing and incorporate business continuity planning within periodic disaster recovery testing.

**Status:** *Partially Implemented. See Finding 2021-021 for current year update and recommendation.*

**Finding 2020-013 – 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.

- 2020-013a Develop and implement procedures detailing specific requirements for program change control and disseminate and train DoIT support staff in its proper execution.
- 2020-013b 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:** *Not Implemented. See Finding 2021-022 for current year update and recommendation.*

**Finding 2020-014** – Financial Statement Finding *(Reported Initially in Findings 2016-011, 2017-019, 2017-020 and 2018-026)*

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 risk assessments to identify if mission critical systems comply with IT policies and procedures.

- 2020-014a 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 with particular emphasis on keeping patches and versioning current to minimize cybersecurity risk.
- 2020-014b Perform risk assessments at least once every three years with the results documented and communicated to management for action. Contract for the performance of IT security compliance reviews and make use of available Service Organization Control reports to extend IT security monitoring of critical systems.
- 2020-014c Prepare a 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 2021-023 for current year update and recommendation.*

**Finding 2020-015** – Financial Statement Finding *(Reported Initially in Finding 2017-018)*

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.

- 2020-015 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 with the Division's STAARS system.

**Status:** *Partially Implemented. Issue not reported as a significant deficiency in internal control for fiscal year 2021.*

**Finding 2020-016** – 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.

- 2020-016a 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.
- 2020-016b Perform a reconciliation between RIFANS and RIMS on a monthly and annual basis to ensure the data in RIMS supports the revenue recorded in RIFANS.
- 2020-016c Establish a process and control structure to document the DMV's review of the General Laws related to changes in its fee structure and ensure any changes are properly made to RIMS and any relevant excel files used to support the recording of revenue into RIFANS.
- 2020-016d Establish new accounts to record overages and shortages. Record the actual deposit date in the RIMS deposit date field.

**Status:** *Partially Implemented. See Finding 2021-024 for current year update and recommendation.*

**Finding 2020-017 – Financial Statement Finding**

*(Reported Initially in Finding 2018-028)*

The Division's system security approach can be further improved by including additional critical system security requirements.

- 2020-017a Establish a senior information security officer function to manage security oversight.
- 2020-017b Develop a sensitive data inventory for the RIMS system to identify sensitive data elements needing greater protection.
- 2020-017c Database logging and monitoring should be implemented for access to sensitive data in the RIMS database.
- 2020-017d Conduct formal incident response training for DMV staff.
- 2020-017e Enhance controls and timeframes to ensure prompt termination of system access when employees leave or change functions. Document timely reviews of access privileges.

**Status:** *Partially Implemented. See Finding 2021-025 for current year update and recommendation.*

**Finding 2020-018 – Financial Statement Finding**

*(Reported Initially in Finding 2015-015)*

Controls can be enhanced over financial reporting to ensure consistent and accurate reporting of IST Fund activity in accordance with generally accepted accounting principles.

- 2020-018a 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. Ensure a complete reconciliation of activity by funding source to the fund balance components included on the financial statements is performed.
- 2020-018b 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.
- 2020-018c 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.
- 2020-018d Improve controls over the FMS to RIFANS mapping table by ensuring all FMS accounts have an associated RIFANS account.
- 2020-018e Formalize the review of RIDOT's financial closing procedures and preparation of the draft financial statements to enhance control over financial reporting for the IST Fund.

**Status:** *Partially Implemented. See Finding 2021-026 for current year update and recommendation.*

**Finding 2020-019 – Financial Statement Finding**

*(Reported Initially in Finding 2015-016)*

Controls over the identification of transportation infrastructure assets need further improvement to ensure the accuracy of reported amounts. Controls should be improved to identify impaired infrastructure assets as well as removing infrastructure costs when assets are retired or replaced.

- 2020-019a Enhance controls over the assignment of the project infrastructure code by creating a standard form to document the proper infrastructure code to be entered into FMS and management's concurrence and verification of the infrastructure code entered into FMS.
- 2020-019b Enhance controls over the identification of projects determined to be substantially complete to include a verification that the correct date is entered into FMS. Enhance controls over the maintenance of RIDOT's Schedule of Construction in Progress to ensure the information maintained in the schedule agrees to FMS and the financial statements.
- 2020-019c Document consideration of transportation infrastructure impairment as required by generally accepted accounting principles.
- 2020-019d 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. See Finding 2021-027 for current year update and recommendation.*

**Finding 2020-020 – Financial Statement Finding**

*(Reported Initially in 2018-032)*

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.

- 2020-020a Assess the resources necessary to effectively manage and administer the OPEB System to ensure all System functions are met and adequately controlled.
- 2020-020b 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.
- 2020-020c Evaluate assigned responsibilities for key functions and segregate certain responsibilities for incompatible functions to enhance controls over critical plan administrative functions.
- 2020-020d Establish consistent procedures to identify deceased plan members and prompt timely termination of coverage.

**Status:** *Not Implemented. See Finding 2021-029 for current year update and recommendation.*

**Finding 2020-021 – Financial Statement Finding**

Rhode Island Lottery – The Lottery's controls and monitoring processes to address the unique operational characteristics and related risks of the mobile sportsbook and iLottery gaming options need further enhancement.

- 2020-021a Develop a comprehensive "internal audit" functionality appropriate for sportsbook gaming and iLottery activities. Consider engaging a consultant to guide the development of this process.
- 2020-021b Continue with the planned transition of the custodianship of sportsbook eWallets to the sportsbook host, Twin River, to streamline and enhance controls over the mobile sportsbook cash settlement process.

**Status:** *Implemented.*

**Finding 2020-022 – Financial Statement Finding**

*(Reported Initially in Finding 2015-026)*

Rhode Island Convention Center Authority – During the year ended June 30, 2020, the Authority was unable to fund the Operating Reserve requirement of the restrictive covenants for the RICC and the DDC pursuant to the indentures.

- 2020-022 We recommend that the Authority fund the Operating Reserve.

**Status:** *Not Implemented. See Finding 2021-030 for current year update and recommendation.*

**Finding 2020-023 – Financial Statement Finding**

*(Reported Initially in Findings 2015-021 and 2015-022)*

Central Falls School District – 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.

- 2020-023 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:** *Partially Implemented. Improvements have been made, but not totally resolved. See Finding 2021-031 for current year update and recommendation.*

**Finding 2020-024** – 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.

2020-024 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:** *Partially Implemented. Improvements have been made, but not totally resolved. See Finding 2021-032 for current year update and recommendation.*

**Finding 2020-025** – Financial Statement Finding

Rhode Island Higher Education Savings Trust – A daily reconciliation process between the Program Manager and custodian occurs for all RIHESST balances and transactions, including omnibus level balances and transactions. However, this reconciliation process will not detect errors in data exchanged between the Program Manager and the omnibus partners, nor will it detect missing or incomplete information.

2020-025 This matter was identified during our audit of RIHESST's basic financial statements as of and for the fiscal year ended June 30, 2019, when there was only one omnibus partner, and was not corrected during the year ended June 30, 2020. We recommend that the Program Manager develop control processes to ensure periodic reconciliations of balances and transactions on its recordkeeping platform with those on the recordkeeping platforms of the omnibus partners. This reconciliation process should also include a verification of the accuracy of financial reports that are critical to plan wide financial reporting.

**Status:** *Implemented.*

**Finding 2020-026** – CFDA 10.551, 10.561; 93.558; 93.575, 93.596; 93.767; 93.775, 93.777, 93.778

(Reported Initially in Finding 2019-037)

Controls over the RIBridges eligibility and benefit system are inadequate to ensure that user access is limited to only authorized individuals and such access is consistent with each user's specific scope of duties. Additionally, automated password change controls were not operational; and therefore, users were not required to change passwords at required intervals.

2020-026a Ensure the automatic system prompt for password reset functionality is operational to require password resets at intervals consistent with State and federal policy.

2020-026b Strengthen and formalize the overall monitoring of RIBridges access to ensure access is granted appropriately, terminated timely, and consistent with each individual's scope of duties.

2020-026c Evaluate the access control management process and the report elements so that privilege changes and attempted changes are captured and evaluated for appropriateness. In addition, implement a process by which the State can periodically check that the Deloitte Security Administrator and Deloitte employee privilege changes and actions are appropriate.

**Status:** *Partially Implemented. See Finding 2021-039 for current year update and recommendations.*

**Finding 2020-027** – 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, 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.

- 2020-027a 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.
- 2020-027b Ensure that the formalized plan includes a comprehensive risk assessment for both systems (RIBridges and MMIS), 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 2021-040 for current year update and recommendations.*

**Finding 2020-028** – CFDA 10.551, 10.561

*(Reported Initially in Finding 2017-043)*

DHS can improve its review and consideration of service organization control reports for vendors performing elements of the EBT process.

- 2020-028 Enhance review and follow-up, as necessary, on SOC reports provided by vendors to evaluate the effectiveness of controls over external components of the EBT systems. Document consideration of relevant user entity controls identified within the SOC reports.

**Status:** *Implemented.*

**Finding 2020-029** – CFDA 10.557

DOH needs to review all Service Organization Control (SOC) reports for the WIC program to assess the sufficiency of controls in place at the service organizations relevant to program compliance requirements.

- 2020-029a Review all SOC reports to determine if the service organizations have appropriate control procedures in place to obtain reasonable assurance of compliance with federal laws and regulations.
- 2020-029b Require service organizations, where possible, to provide SOC reports detailing those relevant controls have been suitably designed and are operating effectively.

**Status:** *Implemented.*

**Finding 2020-030** – CFDA 17.225

Controls over the processing of unemployment insurance claims are ineffective to sufficiently prevent fraudulent unemployment insurance benefit payments.

- 2020-030a Continue to enhance procedures to timely identify fraudulent claims by strengthening controls within the legacy claims processing system as well as those newly implemented processing functionalities employed to meet the increase in claims activity.
- 2020-030b Implement a strategic plan to address the required modernization of the unemployment claims processing system.

**Status:** *Partially Implemented. See Finding 2021-047 for current year update and recommendation.*



**Finding 2020-031 – 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 Unemployment Compensation (UC) account when the overpayment was the result of the employer's failure to respond timely or adequately to a request for information.

- 2020-031 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 2021-048 for current year update and recommendation.*

**Finding 2020-032 – CFDA 17.225**

The ETA (Employment and Training Administration) 227 report filed by Department of Labor and Training (DLT) for the quarter ended June 30, 2020, significantly under-reported fraudulent claim activity.

- 2020-032 Ensure ETA 227 reports detailing overpayment detection and collection activities are accurate and complete and amounts owed are reflected on the financial statements.

**Status:** *Not Implemented. The Department is in the process of assessing and preparing to implement new ETA requirements regarding the reporting of fraudulent claim activity.*

**Finding 2020-033 – CFDA 21.019**

Controls over final centralized approval of expenditures funded by the Coronavirus Relief Fund (CRF) should be improved.

- 2020-033a Ensure that all expenditures and activities are reviewed and approved for allowability criteria through the centralized review process and that those approvals are documented for each phase of the review.
- 2020-033b Review State payroll adjustments to CRF to ensure that the expenditures meet the allowability criteria as determined by the US Treasury.

**Status:** *Partially Implemented. See Finding 2021-058 for current year update and recommendation.*

**Finding 2020-034 – CFDA 21.019**

Questioned costs were identified for Workforce Stabilization Loans made to congregate care providers who could not demonstrate the funds were used in accordance with loan agreements.

- 2020-034 Conclude repayment of remaining loans to congregate care providers who did not comply with or could not demonstrate compliance with Workforce Stabilization Loan agreements.

**Status:** *Implemented.*

**Finding 2020-035 – CFDA 20.500, 20.507, 20.525, 20.526**

Rhode Island Public Transit Authority – One purchase over \$5,000 that was not competitively bid, and the Authority had no documentation on file substantiating the reasons why the purchase was not competitively bid. This purchase was also more than \$25,000 and the Authority had no documentation on file verifying that the vendor was not suspended, debarred or otherwise excluded from participating in the transaction.

- 2020-035 We recommend that the Rhode Island Public Transit Authority adhere to its established procurement, suspension and debarment policies and procedures and ensure that non-competitive procurements and covered transactions are properly documented.

**Status:** *Implemented.*

**Finding 2020-036** – CFDA 20.500, 20.507, 20.525, 20.526

Rhode Island Public Transit Authority – The Rhode Island Public Transit Authority has established policies and procedures for subrecipient monitoring in accordance with Uniform Guidance. These policies and procedures, however, were not properly adhered to for a subaward that was active during the 2020 fiscal year. The grant award notice and subrecipient agreement were not executed in a timely manner and formal monitoring was not performed during the 2020 fiscal year.

2020-036 We recommend that the Rhode Island Public Transit Authority ensure its established policies and procedures are followed and that subaward activities not begin until the grant award notice and subrecipient agreement have been properly executed. We also recommend that the formal monitoring procedures described in its subrecipient policy be performed and documented.

**Status:** *Partially Implemented. See Finding 2021-054 for current year update and recommendation.*

**Finding 2020-037** – CFDA 84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.342, 93.364

University of Rhode Island – Federal regulations require the University to notify students, within the required timeframe, of credits to the student’s account of any Direct Loan. During our testing, we noted one student, out of a sample of 40, who was not notified.

2020-037 The University should create a process to ensure that notifications go to all applicable students.

**Status:** *Implemented.*

**Finding 2020-038** – 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 147 days, which was 87 days late.

2020-038 The College should provide training to employees responsible for processing information for the NSLDS and ensure that they have adequate knowledge in the related rules and regulations. This training should include an explanation of the College’s date of determination of withdrawal, the importance of reporting timely, and the consequences of late reporting. Additionally, this should include an explanation of the status changes, the importance of reporting the correct status changes and the consequences of incorrect reporting. Additionally, submission of additional rosters may reduce the likelihood of the finding in the future.

**Status:** *Implemented.*

**Finding 2020-039** – 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. During our testing, we noted four students, out of a sample of forty, were not reported to NSLDS within the required timeframe.

- Three students that withdrew were not reported to NSLDS.
- One student that withdrew was not reported to NSLDS within the required timeframe. The status change was reported at 69 days, which was 9 days late.

2020-039 The Community College should provide training to employees responsible for processing information for the NSLDS and ensure that they have adequate knowledge in the related rules and regulations. This training should include an explanation of the Community College’s date of determination of withdrawal, the importance of reporting timely, and the consequences of late reporting. Additionally, submission of additional rosters may reduce the likelihood of the finding in the future.

**Status:** *Implemented.*



**Finding 2020-040** – CFDA 84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.342, 93.364

Community College of Rhode Island – Federal regulations state that any unearned Title IV grant or loan assistance received by a student must be refunded to the Title IV programs upon a student’s withdrawal from the institution. The Community College has 45 days from the date they determined the student withdrew to return any unearned portions of Title IV funds. During our testing, we noted four students, out of a sample of forty, had unearned Title IV aid that was not returned to the Federal Government within 45 days of the determined withdrawal date by 93 - 99 days.

- 2020-040 The Community College should strengthen their controls surrounding the timely review of student withdrawals to ensure Return of Title IV calculations are completed in a timely manner and refunds are returned to the Department of Education within the required timeframe.

**Status:** *Implemented.*

**Finding 2020-041** – CFDA 93.558 *(Reported Initially in Finding 2017-064)*

The State can improve compliance with TANF eligibility requirements specifically by ensuring consistent documentation of eligibility components within RIBridges.

- 2020-041a Continue efforts to ensure that all required eligibility compliance requirements are operational within RIBridges.
- 2020-041b 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.

**Status:** *Partially Implemented. See Finding 2021-064 for current year update and recommendation.*

**Finding 2020-042** – CFDA 93.558 *(Reported Initially in Finding 2017-066)*

DHS can improve the timely update and/or development of new employment plans for clients upon the expiration of an existing plan.

- 2020-042 Improve the timeliness of updating or establishing new employment plans upon the expiration of an existing plan. Sanction clients not in compliance with their employment plans, and close cases after three months of non-compliance.

**Status:** *Partially Implemented. The State and Systems Integrator continue to make system & staffing improvements to ensure TANF regulations are followed. Staffing was specifically addressed during the FY2022. The RIW report, DQ-003, was implemented in FY2019, and is utilized regularly to reduce cases without an existing employment plan. RI Works / TANF training for staff has been revised and implemented, training is for both Eligibility Technicians and Employment & Career Advisors (ECAs) cover the employment plan requirements. Supervisors continue to review cases during supervisor approvals. The system requires that supervisors review all “other” hardship cases. Additionally, supervisors have to assign task/cases for workers out of the Worker Inbox (WIB). Each supervisor reviews these cases thoroughly to ensure accuracy.*

**Finding 2020-043** – CFDA 93.558 *(Reported Initially in Finding 2017-067)*

The State began to meet the required Income Eligibility and Verification System requirements in fiscal 2020.

- 2020-043 Complete implementation of the federally required data interfaces within the RIBridges eligibility system to meet the IEVS TANF program requirement.

**Status:** *Partially Implemented. The State and Systems Integrator teams have operationalized income verification for RI Works / TANF during FFY 2022. The immigration status information maintained by the INS interfaces was previously in production. The SSA and SWICA interfaces was previously implemented. Furthermore, TANF staff and eligibility staff have had access to “The Work Number” throughout the year for the purpose of additional wage verification. Additional training for the field staff is continuous to ensure that both documentation and resources are utilized for TANF.*

**Finding 2020-044** – CFDA 93.558; 93.575, 93.596 (Reported Initially in Finding 2019-051)

DHS subrecipient monitoring procedures need to be enhanced to ensure that funds are expended by subrecipients in compliance with applicable program laws and regulations.

- 2020-044a Modify subrecipient risk assessment procedures to include consideration of whether program was tested as a major program in subrecipient Single Audits and other factors such as the continuity and capability of subrecipient management and volume of program activity.
- 2020-044b Issue management decisions on subrecipient audit findings within six months as required by federal regulation.

**Status:** *Partially Implemented. Financial management has been revising our subrecipient risk assessment procedures with the goal of incorporating consideration of major programs in subrecipient Single Audits and other factors. Due to pandemic-related staff shortages, we were not able to fully communicate new procedures throughout our division, but plan to have the new process implemented by the end of SFY22. Going forward, DHS will assemble a list of all subrecipients and verify that management decision letters are issued to all subrecipients. Each year, DHS has been making progress toward this goal and will continue to improve this process.*

**Finding 2020-045** – CFDA 93.568 (Reported Initially in Finding 2018-063)

DHS subrecipient monitoring procedures need to be enhanced to ensure that funds are expended by subrecipients in compliance with LIHEAP laws and regulations. Timely management decisions must be made on subrecipient audit findings.

- 2020-045a Modify subrecipient risk assessment procedures to include consideration of whether LIHEAP was tested as a major program in subrecipient Single Audits and other factors such as the continuity and capability of subrecipient management and volume of program activity.
- 2020-045b Issue management decisions on LIHEAP subrecipient audit findings within six months as required by federal regulation.

**Status:** *Implemented.*

**Finding 2020-046** – CFDA 93.568 (Reported Initially in Finding 2019-053)

DHS must enhance controls regarding the allocation of expenditures to multiple available grant awards/periods to ensure compliance with earmarking, period of performance and reporting compliance requirements for LIHEAP.

- 2020-046 Implement a combination of unique RIFANS accounts (line sequences) to identify/track LIHEAP expenditure categories and utilize cost centers to differentiate grant award sources, to enhance controls over compliance with earmarking, period of performance and reporting requirements.

**Status:** *Implemented.*

**Finding 2020-047** – CFDA 93.568 (Reported Initially in Findings 2015-053 and 2017-063)

Available documentation was insufficient to adequately support the data cited within the Annual Report on Households and the LIHEAP Performance Data Form. Review of required reports is inadequate to prevent or detect potential misstatements within the inputs of the report figures.

- 2020-047a Ensure the data in the Hancock LIHEAP system is complete and accurate.
- 2020-047b Ensure the federal reports are supported by the reporting from the Hancock LIHEAP system.
- 2020-047c Enhance the review process in place over all federal reports to prevent or detect misstatements prior to submission.

**Status:** *Implemented.*

**Finding 2020-048** – CFDA 93.568

(Reported Initially in Finding 2019-055)

DHS should ensure controls are adequately designed and operational within the computer application utilized by the State to administer LIHEAP at local community action agencies.

- 2020-048a Require the vendor supporting the LIHEAP computer application to have a SOC examination performed to provide assurance on the operating effectiveness and data integrity of the application. Alternatively, monitoring and assessment procedures could be performed by DHS and the State's Division of Information Technology. Look for other states that utilize the Hancock System and inquire as to how they gain comfort over the system controls and whether a collaboration between the states would speed the process of obtaining a SOC report.
- 2020-048b Adhere to the State's Enterprise-wide guidelines and require individuals with access to LIHEAP's Hancock system to change their passwords every 90 days. Employees with privileged access to the system should change their password every 60 days.

**Status:** *Partially Implemented. Password update frequency has been updated. DHS is awaiting a SOC report from the software vendor, but award calculations are monitored and verified by LIHEAP.*

**Finding 2020-049** – CFDA 93.575, 93.596

(Reported Initially in Finding 2017-068)

RIBridges controls over eligibility determinations, income validation and calculation of required parent cost-sharing amounts require strengthening for the CCDF Cluster programs.

- 2020-049a Complete a plan to improve controls over CCDF eligibility, including parent earnings information for parent co-shares.
- 2020-049b Perform recertifications at least every twelve months.

**Status:** *Partially Implemented. See Finding 2021-065 for current year update and recommendation.*

**Finding 2020-050** – CFDA 93.658; 93.659

The Department of Children, Youth and Families can improve controls over the monitoring of its cost allocation plan, which is administered by a vendor, to ensure that costs distributed to various programs are appropriate and consistent with the federally approved plan.

- 2020-050a Perform more consistent and comprehensive reconciliation of all cost allocation system inputs.
- 2020-050b Ensure certain department personnel have a sufficient understanding to oversee the cost allocation process and adequately review the cost allocation results.
- 2020-050c Ensure the cost allocation plan, allocation techniques and narratives are current and consistent with the actual process and documentation has been updated when changes are made.
- 2020-050d Adjust the State's accounting system timely to reflect the result of the cost allocation process.

**Status:** *Implemented.*

**Finding 2020-051** – CFDA 93.658; 93.659

DCYF can enhance controls over the Foster Care and Adoptions Assistance eligibility determination process by requiring the vendor to complete their eligibility quality control reviews on a timely basis.

- 2020-051 Ensure reports provided by the vendor performing eligibility quality control reviews are timely.

**Status:** *Implemented.*

**Finding 2020-052** – CFDA 93.659

DCYF can enhance its processes for retention of critical documentation that supports Adoption Assistance eligibility to ensure federal reimbursement of adoption subsidy payments in accordance with applicable laws and regulations.

- 2020-052a Adjust federal reports to reimburse the federal government for the unallowable adoption subsidy charges.
- 2020-052b Create a central repository for all records that support the Adoption Assistance eligibility determination. Consider electronic imaging of these critical documents to facilitate storage and retrieval.

**Status:** *Partially Implemented. DCYF added Adoption Decrees to centralized electronic Title IV-E Adoption Eligibility Records following Audit after working with Family Court to receive documents electronically. DCYF plans to enhance electronic Title IV-E Adoption eligibility records to include criminal and background checks-licensing information- ultimately as part of a new system design.*

**Finding 2020-053** – CFDA 93.767

*(Reported Initially in Finding 2014-067)*

The State did not materially comply with CHIP eligibility requirements during fiscal 2020. RIBridges is not fully evaluating all eligibility criteria to ensure compliance with federal regulations.

- 2020-053a Address and correct the RIBridges system deficiencies which result in material noncompliance with federal regulations regarding CHIP eligibility.
- 2020-053b Improve documentation requirements over critical applicant data not currently validated through electronic interfaces.
- 2020-053c Identify ineligible CHIP costs and return to the federal grantor.

**Status:** *Partially Implemented. See Finding 2021-068 for current year update and recommendations.*

**Finding 2020-054** – CFDA 93.775, 93.777, 93.778

The State's current practices for inpatient hospital and long-term care facility rate setting do not fully comply with its State plan provisions requiring an annual review of inpatient hospital rate components and nursing facility audit requirements.

- 2020-054 Document compliance 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 to align to current practices.

**Status:** *Partially Implemented. See Finding 2021-074 for current year update and recommendations.*

**Finding 2020-055** – CFDA 93.767; 93.775, 93.777, 93.778

The State should improve controls to ensure that its managed care organizations (MCOs) are maximizing TPL recoveries for Medicaid recipients.

- 2020-055a Share and match identified TPL coverage with the MCOs upon enrollment and as an individual's TPL status changes. Periodic matching with MCO enrollment files would ensure that TPL coverage is consistently being applied throughout the Medicaid and CHIP programs.
- 2020-055b Explore the other TPL process recommendations above to further improve controls over TPL identification and cost avoidance.

**Status:** *Not Implemented. See Finding 2021-075 for current year update and recommendations.*

**Finding 2020-056** – CFDA 93.775, 93.777, 93.778

BHDDH did not comply with Medicaid State Plan requirements for retainer payments made to certain providers.

- 2020-056 Credit the federal government for the questioned costs identified for ineligible retainer payments.

**Status:** *Not Implemented. Questioned cost finding relating to fiscal 2020.*

**Finding 2020-057** – CFDA 93.775, 93.777, 93.778

Certain psychiatric residential treatment facility services provided to children in the State's custody that were charged to Medicaid required formalization in the Interagency Services Agreement between DCYF and EOHHS, the Single State Medicaid Agency. Controls over other services provided to children in the State's custody would be improved if processed through the Medicaid Management Information System (MMIS).

- 2020-057a Formalize the requirements for PRTF services being provided to children in the State's custody within the ISA between EOHHS and DCYF to be allowable for Medicaid reimbursement.
- 2020-057b Ensure that allowable medical services provided by DCYF providers are billed directly to the MMIS and subject to all designed claims processing, recipient eligibility, and provider eligibility controls.

**Status:** *Partially Implemented. See Finding 2021-076 for current year update and recommendations.*

**Finding 2020-058** – CFDA 93.775, 93.777, 93.778

Controls to ensure NCCI claims processing edits are functioning over Medicaid activity require improvement to ensure compliance with federal regulations.

- 2020-058a Include review of the application of NCCI edits into the scope of the Service Organization Control Review conducted annually of the State's claims processing system and related fiscal agent controls to ensure continued operation of the NCCI federal requirements within the MMIS.
- 2020-058b Address other NCCI requirements (e.g., order of edits, confidentiality agreement) in accordance with NCCI Medicaid Technical Guidance.

**Status:** *Partially Implemented. See Finding 2021-075 for current year update and recommendations.*

**Finding 2020-059** – CFDA 93.775, 93.777, 93.778

*(Reported Initially in Findings 2014-067 and 2015-060)*

The State did not materially comply with Medicaid eligibility requirements due to control deficiencies relating to the processing and documentation of recipient eligibility.

- 2020-059a Address and correct the RIBridges system deficiencies which result in material noncompliance with federal regulations regarding Medicaid eligibility.
- 2020-059b Formalize and implement a plan to ensure all designated system controls (PEV and redetermination) over eligibility are fully operational and well documented in the system.
- 2020-059c 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).
- 2020-059d Continue system modifications to address remaining MAGI determination requirements in accordance with State Health Official guidance provided in 2019.
- 2020-059e Identify ineligible Medicaid program costs and return to the federal grantor.

**Status:** *Partially Implemented. Due to temporary changes in eligibility determination processes during fiscal 2021 approved by CMS in response to the on-going public health emergency (PHE), many of the previous federal requirements relating to eligibility for Medical Assistance (i.e., validation of income, periodic redeterminations) have been suspended during the PHE. EOHHS believes that RI Medicaid is compliant with the limited eligibility requirements applicable in fiscal 2021.*

**Finding 2020-060** – CFDA 93.767; 93.775, 93.777, 93.778

*(Reported Initially in Finding 2017-073)*

Timely processing of Medicaid applications in RIBridges continues to be problematic resulting in delays in determining eligibility particularly for applicants requiring long-term care services.

- 2020-060 Continue efforts to implement RIBridges functionality improvements to ensure compliance with federal regulations governing the timely determination of Medicaid eligibility.

**Status:** *Implemented.*

**Finding 2020-061** – 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). This impacts controls to ensure payments are only made on behalf of eligible individuals and has resulted in duplicate capitation payments to managed care organizations.

- 2020-061a Identify and resolve the underlying causes of eligibility data discrepancies between the MMIS and RIBridges systems.
- 2020-061b 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. Federal requirements prevented States from changing the eligibility status of Medicaid recipients during the on-going public health emergency, except for in certain situations. This requirement was designed to ensure the continuity of medical coverage for recipients during the PHE. This requirement has resulted in a significant amount of eligibility discrepancies between the RIBridges eligibility system and the MMIS claims payment system as the State has prevented terminations and changes in eligibility status from communicating to the MMIS. This has allowed on-going Medicaid coverage and claims payments to continue as required by federal PHE requirements. Upon the end of the PHE designation by the federal government, the State will recertify all applicants and ensure that eligibility data between these two critical Medicaid systems is consistent.*

**Finding 2020-062** – CFDA 93.767; 93.775, 93.777, 93.778

(Reported Initially in Finding 2009-086)

EOHHS should adopt stricter settlement requirements when performing contract settlement for its managed care organizations (MCOs). Capitation payments to MCOs represent approximately 55% 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.

- 2020-062a Formalize a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled each contract period.
- 2020-062b Adopt a strict contract settlement based on submitted and accepted encounter data. Improve the adjudication of MCO encounter data to provide a more complete determination of the medical expenditures incurred during managed care contract periods.
- 2020-062c Require an independent audit of selected controls employed by the MCOs as well as the overall medical and administrative costs measured under the contracts. At a minimum, utilize contract audit provisions to validate contract settlement components for MCO expenditures not represented by encounter data.
- 2020-062d Enforce a consistent contract settlement calculation protocol for all MCOs.

**Status:** *Partially Implemented. See Finding 2021-071 for current year update and recommendations.*

**Finding 2020-063** – CFDA 93.767; 93.775, 93.777, 93.778

(Reported Initially in Finding 2019-064)

The State is not currently in compliance with federal regulations for the screening, enrollment, and revalidation of providers used in managed care organization (MCO) networks. Although many of these providers are also enrolled as Medical Assistance providers, the new regulations mandate that States screen, enroll, and periodically revalidate all managed care network providers.

- 2020-063 Implement procedures to comply with federal regulations for the screening, employment and revalidation of providers used in managed care organization networks.

**Status:** *Partially Implemented. See Finding 2021-070 for current year update and recommendations.*

**Finding 2020-064** – CFDA 93.767; 93.775, 93.777, 93.778

(Reported Initially in Finding 2019-068)

Controls should be improved over the quarterly reporting of expenditures for the Medicaid and CHIP programs.

- 2020-064a Eliminate untimely adjustment of expenditures between Medicaid and CHIP by increasing direct allocation of expenditures to the proper program when distributed.
- 2020-064b Ensure that all HHS agencies can reconcile their administrative claiming determined through cost allocation to the State Accounting System on a quarterly basis.

**Status:** *Partially Implemented. See Finding 2021-072 for current year update and recommendations.*



**Finding 2020-065** – CFDA 93.775, 93.777, 93.778; 93.788

(Reported Initially in Finding 2019-065)

Department of Behavioral Healthcare, Developmental Disabilities and Hospitals administration costs were allocated to the Medicaid and Opioid STR programs through a departmental cost allocation plan that was not federally approved.

- 2020-065 Redetermine administrative costs for periods allocated through unapproved methodologies using the plan submitted to the DHHS Division of Cost Allocation (once formally approved). Credit the federal programs for excess administrative costs identified for those periods.

**Status:** *Not Implemented. Questioned cost finding relating to fiscal 2020.*

**Finding 2020-066** – CFDA 93.788

BHDDH can enhance its monitoring of subrecipients as required by federal program requirements.

- 2020-066a Coordinate with EOHHS to ensure all subrecipients are identified to allow collection and review of applicable single audit reports.
- 2020-066b Clarify the Department's understandings with other State departments and agencies to validate that those agencies are aware of federal requirements under the Opioid STR grant award and that appropriate subrecipient monitoring procedures are to be properly performed for all subawards.
- 2020-066c Perform on-site monitoring of providers, including eligibility testing, to ensure that subrecipients are properly complying with contract requirements and federal regulations.

**Status:** *Partially Implemented. Full implementation in fiscal 2022.*

**Finding 2020-067** – CFDA 93.788

BHDDH did not have a procedure in place to ensure compliance with the five percent limit on administrative and infrastructure development expenditures.

- 2020-067 Develop a process to monitor for compliance with the limit on administrative and infrastructure development costs. Consider modifying existing expenditure tracking to include the calculation of these costs.

**Status:** *Partially Implemented. Full implementation in fiscal 2022.*

**Finding 2020-068** – CFDA 93.788

Expenditures were overstated in the Opioid STR program.

- 2020-068 Correct the overstatement of Opioid STR grant expenditures – modify federal financial reports as needed.

**Status:** *Partially Implemented. Full implementation in fiscal 2022.*

**Finding 2020-069** – CFDA 93.917

Pharmacy rebates and related expenditures should be accounted for as federal funds consistent with program guidelines and requirements.

- 2020-069a Recode the established rebate account to a federal account source code and link (by CFDA number) to other program activity
- 2020-069b Enhance controls over cash management to ensure rebate funds are used prior to any drawdown of federal awards.

**Status:** *Implemented.*

**Finding 2020-070 – CFDA 93.917**

Claims for HIV drugs were paid through the AIDS Drug Assistance Program (ADAP) rather than Medicaid when the program participant had established Medicaid eligibility.

2020-070a Explore options with the Medicaid fiscal agent operating the MMIS to link ADAP and Medicaid profiles to ensure the intended payment hierarchy is observed when both ADAP and Medicaid eligibility profiles exist.

**Status:** *Partially Implemented. Via our Pharmacy Benefits Manager (PBM) we have established two significant preventive measures. The first is ADAP staff access to MMIS so that clients can be checked as the system allows for other insurance, particularly Medicaid. As noted, we do accept, and it is allowable to accept, dually eligible individuals with Medicaid and Medicare. The goal is to intercept any active, solo, Medicaid clients at the point where the current data allows. If the system is not updated the review will be compromised. Next, the PBM sends a weekly query that designates Medicaid solos and duals. The staff reviews this and checks to the eligible ADAP list.*

2020-070b Determine the amount of pharmacy claims paid through ADAP (and related pharmacy rebates) that should have been paid through Medicaid.

**Status:** *Implemented.*

2020-070c Enhance controls to only establish ADAP eligibility profiles within the MMIS when indicated by consideration of all health insurance available to the program participant.

**Status:** *Partially Implemented. Current more sophisticated adjustments to the third liability and “other insurance claims” is being done. A meeting was held with PBM and a new business plan and statement of work is currently underway to be finalized by July 2022.*

**Finding 2020-071 – CFDA 93.917**

EOHHS lacks a comprehensive database of program participant information to effectively manage specific compliance activities for the HIV Care Formula Grant.

2020-071 Continue implementation of a comprehensive database (Lifia) of program participant information to effectively manage various interdependent compliance objectives.

**Status:** *Implemented.*

**Finding 2020-072 – CFDA 93.917**

EOHHS can improve its monitoring of subrecipient agencies which provide direct services to program participants.

2020-072a Resume on-site monitoring of subrecipient activities when permitted and include review of current subrecipient activities during on-site reviews.

2020-072b Enhance timely review of subrecipient audit reports.

**Status:** *Partially Implemented. Ongoing virtual monitoring. As note, as a result of COVID agencies are not back full time as of yet, However, program staff regularly are in touch with agencies from both a fiscal/program management and services monitoring perspective. Performance measures are reviewed quarterly, and staff discuss monitoring concerns and accomplishments each week. Annually, we have site visits that are composed of a long review (monitoring standards from an administrative, fiscal, budget and services perspective). The program held virtual site visits last year and are in the process of its annual site visits now.*